

The 35,000 Preferred Shares of the 5½% Series referred to herein are being offered in Canada, but not in the United States of America. This circular is not, and under no circumstances is to be construed as, an offering of any of such Preferred Shares for sale in the United States of America or the territories or the possessions thereof or an offering to any resident of the United States or a solicitation therein of an offer to buy any of this issue. Gatineau Power Company has filed with the Securities and Exchange Commission, Washington, D.C., a Registration Statement and Prospectus under the Federal (United States of America) Securities Act of 1933, as amended, with respect to the offer and sale of the \$62,500,000 principal amount of First Mortgage Bonds 3¾% Series A and Series B due 1969, referred to herein, which documents contain information not reproduced herein. A copy of such Prospectus is available on request to the Company.

NEW ISSUE

\$3,500,000

(Par Value)

Gatineau Power Company

(Incorporated under the laws of the Province of Quebec)

5½% Cumulative Preferred Shares

(par value \$100 per share)

Cumulative dividends accrue from April 1, 1939

Dividends on, redemption price of, and all other distributions in respect of these shares will be payable in lawful money of the Dominion of Canada

These 35,000 5½% Cumulative Preferred Shares are offered concurrently with the sale to certain underwriters by Gatineau Power Company (herein referred to as the "Company") of \$62,500,000 First Mortgage Bonds (of which \$52,500,000 are designated 3¾% Series A due 1969 and \$10,000,000 are designated 3¾% Series B due 1969) and concurrently with the issue of the Preferred Shares now offered, the Company will borrow \$7,300,000 against a like principal amount of its Promissory Notes under a Bank Loan Agreement dated April 5, 1939. The Series A Bonds and the Promissory Notes will be payable in lawful money of the United States of America and the Series B Bonds will be payable in lawful money of the Dominion of Canada.

The authorized amount of preferred stock is 171,960 shares and, upon completion of the present financing, there will be outstanding 121,960 5% Cumulative Preferred Shares of the par value of \$100 each (herein referred to as the "Preferred Shares of the 5% Series"), and the 35,000 5½% Cumulative Preferred Shares now offered, and there will be authorized but unissued 15,000 5½% Cumulative Preferred Shares; such 50,000 5½% Cumulative Preferred Shares being herein referred to as the "Preferred Shares of the 5½% Series".

The 35,000 Preferred Shares of the 5½% Series now offered will be fully paid and non-assessable; preferred as against common shares as to dividends and assets; entitled to preferential dividends, cumulative from and after April 1, 1939, at the rate of 5½% per annum, when and as declared by the directors of the Company, payable in quarterly instalments on the first days of January, April, July and October in each year. The Preferred Shares of the 5% Series and the Preferred Shares of the 5½% Series when issued, will rank pari passu as to dividends so that after the issue of any Preferred Shares of the 5½% Series no dividends shall be paid on or set apart for the Preferred Shares of either of such Series unless at the same time dividends at the rates respectively prescribed therefor, or at the same percentage of such rates, shall be paid on or set apart for the Preferred Shares of both such Series. On resolution of the directors of the Company, all or part of the Preferred Shares of the 5½% Series may be redeemed, upon at least sixty days' notice, at the price of \$110 per share plus an amount in each case equal to the full cumulative dividends thereon to the redemption date then remaining unpaid. If less than all the outstanding Preferred Shares of the 5½% Series are to be redeemed, the shares to be redeemed shall be selected by lot under such reasonable regulations as may be prescribed by resolution of the directors of the Company. In addition, the Company shall have the right, at its option, at any time and from time to time and without notice, to redeem all or any part of the Preferred Shares of the 5½% Series by purchase in the open market or by private contract, at not exceeding the redemption price thereof. In the event of any liquidation, bankruptcy, dissolution, winding-up or reorganization by amalgamation or otherwise of the Company, the holders of the Preferred Shares, without preference or priority of the shares of one Series over the shares of the other Series, will be entitled to be repaid out of the assets of the Company available for distribution to such holders \$110 per share and, in addition, an amount equal to full cumulative dividends to the date of such payment then remaining unpaid.

The holders of the Preferred Shares of the 5½% Series will have no voting rights except in respect of changes in the provisions appearing herein under the caption "Conditions Attaching to the Preferred and Common Shares" and except in respect of the creation of preferred stock ranking prior to or pari passu (apart from 78,040 additional preferred shares which may be created ranking as to capital and dividends and otherwise pari passu with the Preferred Shares of the 5½% Series) with the Preferred Shares of the 5½% Series, unless and so long as dividends are in arrears to the amount of 5½% or more, in which event the holders of such Preferred Shares shall be entitled to notice of all shareholders' meetings and to cast one vote for each Preferred Share held by them upon all matters submitted to a vote thereat. Such 78,040 additional preferred shares, together with the remaining authorized and unissued 15,000 Preferred Shares of the 5½% Series, may be issued from time to time only if for twelve consecutive months out of the fifteen months next preceding the month in which such shares are to be issued, the "net earnings" (ascertained in accordance with said "Conditions Attaching to the Preferred and Common Shares") of the Company shall have been at least equal to an amount one and one-half times the amount required for the payment of dividends for one year on the total of all shares of preferred stock of all series to be outstanding after the issue of such shares.

Reference is made to the full statement of the rights, priorities, privileges, restrictions, limitations, terms and conditions of the Preferred Shares of the 5½% Series appearing herein under the caption "Conditions Attaching to the Preferred and Common Shares".

The Company has undertaken that so long as any of the 35,000 Preferred Shares of the 5½% Series now offered are outstanding, such dividends as are declared on such Shares will be payable at par at any branch in Canada (Yukon Territory and Goldfields, Saskatchewan, excepted) of a chartered bank from time to time selected by the directors of the Company.

Provisions Affecting Payment of Dividends

As set out under the caption "Conditions Attaching to the Preferred and Common Shares" appearing herein, so long as there are any Preferred Shares outstanding, dividends shall not be declared or paid upon the common shares unless all cumulative dividends upon the Preferred Shares in respect of all previous quarters and in respect of the then current quarter shall have been or shall be paid or declared and set apart and the credit remaining to surplus available for dividends after payment of dividends on the common shares would be at least equal to one year's dividend requirements on all the Preferred Shares then outstanding.

In the Trust Indenture between the Company and Montreal Trust Company dated June 1, 1938, in respect to its Serial and Sinking Fund Debentures which mature to and including June 1, 1949, the Company agreed not to pay, so long as any of such Debentures are outstanding, any dividends (other than dividends paid in stock of the Company) in any quarterly period on any shares of the capital stock to an amount exceeding the "Net Available for Dividends" (as defined in the Trust Indenture) applicable to such quarterly period. In general the amount of the "Net Available for Dividends" applicable to any quarterly period shall be a sum equal to one-quarter of the difference between the amount of the Company's "Available Income" (as defined in the Trust Indenture) for a period of twelve calendar months (ending not more than four calendar months prior to the beginning of such quarterly period) and the sum of the following amounts, namely:—(a) the amounts provided by the Company for income and profits taxes in respect of such twelve months period and (b) the

(Continued on Page 2)

Transfer Agent—National Trust Company, Limited, Montreal and Toronto
Registrar —The Royal Trust Company, Montreal and Toronto

These 35,000 Preferred Shares of the 5½% Series are offered if, as and when issued by Gatineau Power Company, subject to the approval of all legal matters on behalf of the Company by Messrs. Montgomery, McMichael, Common & Howard, Montreal, and on behalf of the Underwriters by Messrs. Meredith, Holden, Heward & Holden, Montreal.

PRICE: \$97 per share

It is expected that Definitive Share Certificates will be ready for delivery on or about April 27, 1939, in Montreal and Toronto. Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close subscription books at any time without notice.

McLEOD, YOUNG, WEIR & Co.

LIMITED

Metropolitan Building, Toronto

Telephone: ELgin 0161

Montreal
Harbour 4261

Ottawa
2-1777

London
Metcalfe 1465

Hamilton
7-1919

The statements contained herein are based upon information which we believe to be reliable, but are in no event to be construed as representations by us.
April 24, 1939.

Printed in Canada

annual interest charges on all "Funded Debt" (as defined in the Trust Indenture) and all other interest bearing obligations of the Company outstanding at the beginning of such quarterly period and (c) the amount by which the Company is obligated during the twelve months period following the beginning of such quarterly period to reduce such obligations exclusive of such of said obligations as the Company may be obliged to or will redeem, retire or pay: (i) out of or with the proceeds of any issue of bonds, debentures or other securities or debt or other obligations permitted to be issued or created under the provisions of the Trust Indenture; (ii) out of or with the proceeds of any issue of shares of the Company, and exclusive of such of said obligations for the redemption, retirement or payment of which no expenditure of cash will be made during the said last mentioned twelve months period. If the "Net Available for Dividends" is not used in full to pay dividends for the quarterly period for which it is so available then any amount not so used (defined in the Trust Indenture as a "Quarterly Dividend Credit") may, within certain limitations, be used for dividend purposes in any future period in addition to the "Net Available for Dividends" for such period.

In the Bank Loan Agreement dated April 5, 1939, in respect of loans which will mature serially to and including April 15, 1949, the Company has undertaken so long as any of such loans remain unpaid not to declare any dividends (other than dividends payable in stock of the Company or dividends which may be declared during the month of May 1939 upon the outstanding preferred and common shares of the Company) nor to make any distribution on or purchase or redeem any shares of the capital stock to an amount exceeding by more than \$1,000,000 the "Amount Available for Dividends" which in substance is defined in the Agreement as being the excess of the total revenues of the Company from all sources from May 1, 1939 to the date as of which the determination is made over the sum of (a) all operating expenses of the Company during that same period; (b) for each month during the same period an amount equivalent to one-twelfth of the sum of (1) the annual interest charges on interest bearing obligations of the Company outstanding at the end of such month, and (2) the amount by which the Company is obligated during the succeeding 12 months after the end of such month to reduce such obligations, with certain exclusions; and (c) the aggregate amount of all dividends (excepting stock dividends and the permitted dividends referred to in this paragraph) previously declared for payment on or after May 1, 1939, and the aggregate amount which, subsequent to May 1, 1939, shall have been distributed on or used to purchase or redeem any shares of its capital stock.

The following information is contained in a letter of G. Gordon Gale, Esq., President of Gatineau Power Company, on which we have relied in connection with this offering of 5½% Cumulative Preferred Shares.

HISTORY AND BUSINESS

Gatineau Power Company was incorporated by Letters Patent of the Province of Quebec, Canada, on March 11, 1926. The Company and its subsidiaries collectively but not all individually are engaged primarily in the business of generating, transmitting, distributing and selling electricity in the Provinces of Quebec, Ontario and New Brunswick in the Dominion of Canada. Also, the Company sells steam to a single customer, the Company and a subsidiary sell electrical appliances at retail and one subsidiary owns and operates a small bus transportation system. The Company owns generating plants having 725,634 h.p. rated installed turbine capacity of which over 98% is hydro-electric. During 1938 the Company produced approximately 2,700,000,000 kilowatt hours of electricity. For the twelve months period ended December 31, 1938, over 99% of the total operating revenues of the Company and its subsidiaries consolidated was derived from electric operations.

The Company's largest customer is The Hydro-Electric Power Commission of Ontario, which purchases under contract 25 cycle power for use in its Niagara system and 60 cycle power for use in its Eastern Ontario system. The two principal contracts extend to 1970. Revenues received by the Company from the sale of power to the Commission amounted to over 39% of the total operating revenues of the Company and its subsidiaries consolidated for the twelve months ended December 31, 1938.

The Company also sells electricity under contracts, none of which expires before 1956, to Canadian International Paper Company, a subsidiary of International Paper and Power Company, for its Kipawa sulphite and Gatineau newsprint mills, both in the Province of Quebec. The Company and a subsidiary sell electricity to Canadian International Paper Company for its Hawkesbury sulphite mill, in the Province of Ontario. The Kipawa and Hawkesbury mills are engaged in manufacturing bleached sulphite pulp, used chiefly in the manufacture of rayon yarn, cellophane and allied products. In the Province of New Brunswick, the Company sells electricity and steam (and provides transmission facilities) under contracts extending to 1967 to New Brunswick International Paper Company, a subsidiary of Canadian International Paper Company, for use at its Dalhousie newsprint mill. Revenues received by the Company and subsidiaries from the sale of electricity and steam to Canadian International Paper Company and to New Brunswick International Paper Company, including payments for use of facilities provided by the Company amounted to over 35% of the total operating revenues of the Company and its subsidiaries consolidated for the twelve months ended December 31, 1938.

The Company also sells, under long term contracts, electricity at wholesale in the Province of Quebec to The Ottawa Electric Company which distributes electricity in the City of Ottawa, the City of Hull (where the Company also distributes electricity), and vicinity, and in the Province of New Brunswick to Fraser Companies, Limited, to the Towns of Dalhousie and Grand Falls and to the New Brunswick Electric Power Commission for distribution north of Grand Falls and east of Dalhousie. In the Hull, Quebec, district the Company sells electricity under contract to The E. B. Eddy Company, Limited (in which the Company has a substantial interest) and other industrial customers.

The three contracts with The Hydro-Electric Power Commission of Ontario and the contract with The Ottawa Electric Company stipulate that, if failure to deliver the full amount of power or electrical energy provided for under such contracts is due to causes within the Company's control (or, in the case of the two principal contracts with the Commission, within the control of Gatineau Transmission Company), the Company (in addition to suffering a reduction in the sums payable under such contracts by an amount having the same ratio to the sums payable as the diminution in the power or electrical energy bears to that required to be delivered) is obligated to pay as liquidated damages in the case of:—(a) the two principal contracts with the Commission, until October 1, 1943, a sum equal to 50%, and thereafter 100%, of the reduction so made in the sums payable by the Commission; (b) the third contract with the Commission, for a one hour interruption a sum equal to double the amount payable for power which should have been delivered during the interruption and for a longer interruption seven times the amount payable for power which should have been delivered during the interruption; and (c) The Ottawa Electric Company, a sum equal to 100% of the reduction so made in the sums payable by it. Such contracts (except the third contract with the Commission) state that deficiencies in stream flow are not deemed to be within the control of the Company.

The retail distribution business of the Company and its subsidiaries in 1938 accounted for approximately 11% of total operating revenues on a consolidated basis. About 93% of such retail revenues was derived from the Company's distributing operations in the Province of Quebec, where approximately 22,000 customers are served in an area of about 5,000 square miles extending eastward from Bryson and Campbell's Bay, principally along the north shore of the Ottawa River, to Rawdon and St. Lin, and in two other areas, one south of the Ottawa River and one south of the St. Lawrence River, in and about Vaudreuil and Cedars, and in and about Napierville. The latter two areas are supplied with electricity purchased from Montreal Light, Heat & Power Consolidated. The balance of the retail distribution business is derived from a subsidiary's operations in the Province of Ontario.

Only four of the Company's subsidiaries carry on active operations: Gatineau Electric Light Company, Limited, operating solely in the Province of Ontario, sells electricity (supplied entirely by the Company) at wholesale to two municipalities and to the Hawkesbury sulphite mill of Canadian International Paper Company for motive power, and at retail to approximately 1,500 customers in five other municipalities. Gatineau Transmission Company owns and operates approximately 55 circuit miles of high tension transmission lines located almost wholly in the Province of Quebec. The electricity supplied under the contracts with The Hydro-Electric Power Commission of Ontario is transmitted over five circuits which cross the boundary into Ontario. Saint John River Storage Company operates the Temiscouata storage dam located on the Madawaska River, in the Province of Quebec, used in the regulation of the Saint John River in connection with the operation of the Company's plant at Grand Falls, New Brunswick. Gatineau Bus Company, Limited, owns and operates motor buses in the Hull, Quebec, district.

OPERATING STATISTICS

The energy generated and purchased, sales of energy and operating revenues of the Company and its subsidiaries consolidated in each of the calendar years 1934 to 1938, inclusive, are shown by the following schedule:

Energy Generated and Purchased (Thousand kilowatt hours)	1934	1935	1936	1937	1938
Total Generated and Purchased.....	2,765,215	2,852,718	2,771,311	3,032,675	2,702,441
Less: Company use and Unaccounted for.....	63,416	64,970	62,277	78,478	61,782
Total Energy Available.....	<u>2,701,799</u>	<u>2,787,748</u>	<u>2,709,034</u>	<u>2,954,197</u>	<u>2,640,659</u>
Sales of Energy (Thousand kilowatt hours)					
To The Hydro-Electric Power Commission of Ontario.....	1,385,804	1,361,314	873,403	897,337	1,019,933
To Other Electric Systems	72,755	73,749	90,166	89,771	107,693
To Canadian International Paper Company and New Brunswick International Paper Company	1,106,797	1,213,189	1,590,154	1,790,236	1,349,438
To Other Power Customers.....	101,369	102,755	116,058	156,715	142,100
Domestic, Commercial and Other Sales.....	*35,074	*36,741	*39,253	20,138	21,495
Total Sales of Energy.....	<u>2,701,799</u>	<u>2,787,748</u>	<u>2,709,034</u>	<u>2,954,197</u>	<u>2,640,659</u>

*Includes certain small power customers 1934-36.

Operating Revenues	1934	1935	1936	1937	1938
From The Hydro-Electric Power Commission of Ontario.	\$4,656,061	\$4,555,276	\$3,055,132	\$3,095,266	\$3,438,439
From Other Electric Systems.	436,320	446,613	483,684	523,737	580,945
From Canadian International Paper Company and New Brunswick International Paper Company.	2,755,775	2,847,511	3,131,984	3,384,835	3,075,138
From Other Power Customers.	692,257	677,626	703,067	804,042	756,580
Domestic, Commercial and Other Sales.	649,136	658,384	687,008	727,680	776,004
Transportation Revenue (Gatineau Bus Company, Limited, was acquired as of September 1, 1937).	—	—	—	19,367	56,610
Total Operating Revenues.	<u>\$9,189,549</u>	<u>\$9,185,410</u>	<u>\$8,060,875</u>	<u>\$8,554,927</u>	<u>\$8,683,716</u>

POWER CONTRACTS WITH THE HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO

Since 1930, a substantial part of the Company's output has been taken by The Hydro-Electric Power Commission of Ontario under contracts, the two largest of which were entered into in 1926 and 1927, respectively. After entering into these contracts with the Company, the Commission had (in 1929 and 1930) made contracts for the purchase of increasing amounts of power from various other Quebec companies so that prior to 1935 it found itself obligated to take power substantially in excess of the requirements of the municipalities and other customers it served. Relief from the situation so confronting the Commission was sought by questioning the validity of all of the contracts and in 1935 the two largest contracts with the Company, together with substantially all the power contracts which the Commission then had with other Quebec electric companies, were by Act of the Ontario Legislature declared "illegal, void and unenforceable" as against the Commission. The Company did not litigate its claims based on this action but, under date of February 8, 1936, together with its subsidiary, Gatineau Transmission Company, entered into agreements with the Commission, under which the Commission purchased during the period from November 1, 1935 to December 1, 1937 substantially smaller quantities of electricity than those called for under the earlier contracts of 1926 and 1927. The net price for power under the 1926 and 1927 contracts averaged a little under \$14.75 a horsepower year. The prices under the agreements of February 8, 1936, were fixed at \$12.50 a horsepower year for Contract Demand, \$10.00 a horsepower year for Immediate Standby and \$1.75 a horsepower year for General Reserve.

The validity of the above mentioned Act was, however, successfully contested in the courts by certain of the other companies, the judgment being confirmed by the Appellate Court of Ontario. Prior to the hearing of the Commission's appeal to the Judicial Committee of the Privy Council a compromise was effected with all of the Quebec companies. In the case of the Company this compromise took the form of two agreements, dated December 14, 1937, and effective as of December 1, 1937, between the Company, Gatineau Transmission Company and the Commission, under which the respective claims of the Commission and the Company arising prior to December 1, 1937, under the 1926 and 1927 contracts were mutually released, the agreements dated February 8, 1936 were supplanted and the contracts of 1926 and 1927 were varied by the substitution, with certain changes, of the clauses of the 1936 agreements, and their respective terms were extended to 1970. The amount of Contract Demand was increased annually, until by November 1, 1939 the Commission is required to pay for the full 320,000 h.p. covered by the 1926 and 1927 contracts at \$12.50 per horsepower year. By an Act entitled "The Power Contracts Validating Act, 1938" (2 George VI, Chapter 27), the agreements of December 14, 1937 and the contracts of 1926 and 1927, as varied by such agreements, were ratified, confirmed and declared valid by the Legislature of the Province of Ontario. The Company is in a position to meet the increase in the power requirements under the revised contracts with the Commission, without further additions to its generating plants, by withdrawal from other customers of power now utilized for steam generation.

Under an agreement dated December 8, 1913, which expires in January 1947, between The Hydro-Electric Power Commission of Ontario and a predecessor company, the Company agrees to hold in reserve for delivery to the Commission 20,000 h.p. of 60 cycle power. The Commission agrees to pay at the rate of \$11.00 per h.p. per year on the monthly demand and is liable to pay for three-fourths of the power held in reserve for it whether it takes the same or not.

PROPERTY

The principal properties of the Company and its subsidiaries are located in the Provinces of Quebec and New Brunswick, in the Dominion of Canada.

With the exception of the Grand Falls hydro-electric plant and the Dalhousie steam plant, located in the Province of New Brunswick, all of the Company's electric generating stations are located in the Province of Quebec and all except the Dalhousie plant are hydro-electric. The properties of the Company and its subsidiaries include an interconnected 25 cycle system, an interconnected 60 cycle system, the New Brunswick system, two small distribution systems south and west of Montreal, and the Kipawa plant and one small plant which are isolated.

The interconnected 25 cycle system supplies power to The Hydro-Electric Power Commission of Ontario and surplus electricity from this system is sold to Canadian International Paper Company for use at its Gatineau newsprint mill. The Pagan plant, and portions of the Chelsea and Farmers plants, all located on the Gatineau River, generate the electricity for this system.

The interconnected 60 cycle system supplies power to The Hydro-Electric Power Commission of Ontario, to The Ottawa Electric Company and to Canadian International Paper Company for motive power at its Gatineau newsprint and Hawkesbury sulphite mills, as well as surplus electricity for use at such mills and power for retail distribution. This power is provided principally by the Chelsea and Farmers plants on the Gatineau River, and by the Bryson and the two Chaudiere plants on the Ottawa River. The balance of the capacity of this system is accounted for by eight other smaller hydro-electric plants.

The Kipawa plant at Temiskaming supplies electricity to the Kipawa sulphite mill of Canadian International Paper Company. The Grand Falls hydro-electric plant on the Saint John River and the Dalhousie steam-electric plant supply all the electricity and steam sold by the Company in the Province of New Brunswick.

The following schedule lists the generating plants of the Company, their location and rated installed waterwheel capacity as well as the approximate dates of installation of the principal units:

		Rated Installed Waterwheel Capacity (Horse Power)		Approximate Dates of Installation
Name of Development	Location	25 cycle	60 cycle	
Hydro-Electric Plants				
Paugan	Gatineau River, Que.	238,000	—	1928-1931
Chelsea	Gatineau River, Que.	34,000	136,000	1927-1939
Farmers	Gatineau River, Que.	24,000	72,000	1927-1929
Corbeau Rapids	Gatineau River, Que.	—	2,500	1926
Bryson	Ottawa River, Que.	—	51,400	1925-1929
Chaudiere No. 2	Ottawa River, Que.	—	22,500	1920-1923
Chaudiere No. 1	Ottawa River, Que.	—	14,100	1902-1909
Kipawa	Gordon Creek, Que.	—	27,550	1919-1926
Bell Falls	Rouge River, Que.	—	7,200	1915-1920
Rawdon	Ouareau River, Que.	—	2,300	1927
6 Other Plants	Petite Blanche, Blanche, Petite Nation and North Rivers, Que.	—	5,084	1913-1926
Grand Falls	Saint John River, N.B.	—	80,000	1928-1930
Total Hydro-Electric Plants		296,000	420,634	
Steam-Electric Plant				
Dalhousie	Dalhousie, N.B. (Rated installed steam turbine capacity.)	—	9,000	1930
Total All Plants		296,000	429,634	

Except as hereafter noted under this caption "Property," all of the above plants are located on land which, in the opinion of counsel for the Company, is owned in fee (the term "fee" has no defined significance in Quebec property law, but is used herein for convenience as being substantially synonymous with *droit de propriété* representing complete ownership), and rights to flow land not owned in fee are constituted by statute or by servitudes or easements. Flowage rights of the Company are deemed adequate by it for the operation of its plants.

Some of the flowage rights upstream from the Pagan plant are held by the Company under two emphyteutic leases dated respectively August 8, 1922 and April 9, 1929, from the Government of the Province of Quebec which, by Deed dated August 5, 1926, extended to 1997 the term of the 1922 lease. The term of the 1929 lease also extends to 1997. The flowage rights acquired by the Company under the 1929 lease were acquired in connection with the raising of the head at the Pagan plant 20 feet above that contemplated by the original

plans. The conditions of both these leases are similar and among others require the Company to pay a fixed annual rental and an annual royalty based on installed capacity. The royalty may be revised by the Government at the end of each ten-year period. The leases may not be transferred without authorization of the Lieutenant-Governor in Council.

The bed of the creek under the Kipawa dam is held by the Company under an emphyteutic lease from the Government of the Province of Quebec expiring in 1993. The lease also gives the Company the right to store water in Gordon Creek from the dam site upstream to Lake Kipawa and the right to control the operation of the storage dams on Lake Kipawa subject to the Government's requirements. The lease requires the Company to pay a fixed annual rental and an annual royalty based on installed capacity. The royalty may be changed by the Government at the end of each twenty-one year period from the commencement of operation to accord with governmental policy at the time. The lease may not be transferred without consent of the Lieutenant-Governor in Council.

Such rights as the Government of the Province of Quebec may have to the bed of the river at the Rawdon plant are held by the Company under an emphyteutic lease expiring in 2003 which requires the Company to pay a fixed annual rental. The Company does not consider this lease material to the total enterprise represented by the Company and its subsidiaries.

The Company also holds a lease (not emphyteutic) from the Government of the Province of Quebec, expiring in 1988 of seven islands in the Ottawa River, one of which islands may be located under part of the dam of the Bryson plant, and the other six of which, located upstream from the dam, are flooded. The lease requires the Company to pay a fixed annual rental. In addition to the usual provisions for cancellation upon default, the lease may be cancelled by Order-in-Council upon thirty days' notice in writing should the islands be required for public purposes or be occupied for other than the development of water power. Upon cancellation the Company may be obliged to remove any of its works on the islands. The lease may not be transferred without consent of the Lieutenant-Governor in Council.

The waters of the Gatineau River are regulated by The Quebec Streams Commission through operation of the Baskatong and Cabonga storage reservoirs, which have utilizable capacities of about 95,000,000,000 cubic feet and 45,000,000,000 cubic feet, respectively. The cost of developing these reservoirs was paid by the Company, but upon completion, they became the property of the Province of Quebec which, in contracts between it and the Company, agreed to cause The Quebec Streams Commission to operate and maintain them in such manner as to regulate so far as possible the flow of the Gatineau River at Chelsea to the best advantage of the power owners on such river.

The Temiscouata storage reservoir operated by Saint John River Storage Company has a utilizable capacity of about 4,000,000,000 cubic feet and is used in the regulation of the Saint John River in connection with the operation of the Company's hydro-electric plant at Grand Falls, New Brunswick.

The Company and its subsidiaries own and operate approximately 350 circuit miles of steel tower and 652 circuit miles of wood pole transmission and distribution lines of 10 kv. and higher voltages, and in addition the Company and its subsidiaries have lower voltage distribution lines aggregating approximately 950 pole miles. The five principal substations of the Company and its subsidiaries have an aggregate rated capacity of 167,000 kv-a.

MANAGEMENT AND CONTROL

The names and addresses of the present directors of the Company are as follows:

G. Gordon Gale, Ottawa, Ont., President; Irwin L. Moore, New York, N.Y., Vice-President; A. C. Brittain, Ottawa, Ont., Treasurer; John R. Binks, Ottawa, Ont., Secretary; Victor M. Drury, Montreal, Que., W. Fraser Hadley, Hull, Que., Louis S. St. Laurent, K.C., Quebec, Que., and C. N. Simpson, Ottawa, Ont.

As at February 15, 1939, International Hydro-Electric System owned 1,439,024½ Common Shares (including directors' qualifying shares), constituting 87.90% of the voting power of the Company. As of that date there were 84,945 Common Shares of the Company being held for issuance upon the exercise of outstanding Stock Subscription Warrants, none of which was held by International Hydro-Electric System.

The Company is informed that, prior to January 31, 1939, International Paper and Power Company held voting control of International Hydro-Electric System, but that on that date, International Paper and Power Company and its subsidiary, International Paper Company, transferred the shares constituting voting control of International Hydro-Electric System to three Trustees under a Trust Agreement dated January 31, 1939, which Agreement continues until December 31, 1943. The Trust Agreement and a Liquidating Plan submitted to the Securities and Exchange Commission provide for the sale or other disposition of such shares only to others than International Paper and Power Company and International Paper Company and their subsidiaries. Pending such sale or distribution, the Trustees hold all rights, powers and privileges of ownership of such shares including the right to vote. By reason of the facts set forth above the Company disclaims any admission of the actual existence of effective control of it by International Paper and Power Company.

PROVINCIAL ELECTRICITY BOARD

The Provincial Electricity Board of the Province of Quebec has general and complete power, supervision and control over companies and others producing, selling or distributing electricity in the Province of Quebec. The powers of the Board include the licensing of distributors, authorization of the issue of securities, fixing of prices to be charged for electricity to make them conform to the requirements of the Act (Statutes of Quebec, 1 George VI, Ch. 25), and, at the request of any interested party, cancellation or alteration of any contract for the sale of electricity existing on September 1, 1937, if such party establishes that the conditions of such contract are abusive. The decision of the Board in any matter within its jurisdiction is final and without appeal. Infringement of the provisions of the Act or an order of the Board made thereunder renders a distributor liable to cancellation of its license or to a fine not exceeding \$20,000. The Board has issued to the Company and to Gatineau Transmission Company, as distributors operating in the Province of Quebec, licenses expiring December 31, 1939, similar to those which it has issued to other distributors. The policy of the Board with respect to the issue, renewal or extension of licenses has not been announced.

The issuance of the 5½% Cumulative Preferred Shares now offered, and the herein mentioned First Mortgage Bonds 3¾% Series A and Series B due 1969 and Promissory Notes has been authorized by an order of the Provincial Electricity Board of the Province of Quebec.

MISCELLANEOUS INFORMATION

The St. Lawrence Deep Waterway Treaty between the United States of America and the Dominion of Canada, signed on July 18, 1932, but to date not ratified by either government, in part contemplates the development of hydro-electric power on the St. Lawrence River at the International Rapids Section on the Ontario-New York boundary. On May 31, 1938 the Department of State of the United States made public a note, dated May 28, 1938 and addressed to the Minister for Canada, transmitting a draft for a comprehensive treaty which provides for the planned use of the Great Lakes-St. Lawrence Basin, including the development of hydro-electric power. The draft contains certain features purporting to facilitate participation in the plan by Canada. No further action on this matter has been announced by either the United States or Canada. The Company is unable to state to what extent, if any, its business might be affected by such a development.

The "Act to Authorize all Municipal Corporations to Municipalize Electricity" (Statutes of Quebec, 1 George VI, Ch. 26) authorizes municipal corporations to establish and maintain electricity generating and distributing services for lighting, heating and power purposes within the municipality and to acquire by agreement or expropriation whether within or without the municipality, all necessary property, including any system for the production or distribution of electricity. The Company is not aware of any municipal corporation in the territory served by it proposing to avail itself of this Act.

The "Act to Establish and Assure State Competition Respecting Hydro-Electric Resources" (Statutes of Quebec, 1 George VI, Ch. 24) created a corporation named "The National Electricity Syndicate" and declared it to be the mandatary of the Province with power to establish electricity generating plants and electricity transmission and distributing systems in designated electoral districts in the Province. The Syndicate may be authorized to establish, outside of such districts, other electricity generating plants and distributing systems. The Syndicate may acquire by agreement or by expropriation property necessary for its purposes, including any electricity generating or distributing system. The Provincial Treasurer may place at the disposition of the Syndicate the sums necessary for its purposes and in certain cases shares may be sold by the Syndicate, in which event 60% shall be purchased by the Province. The Company's Kipawa plant is located in one of the designated electoral districts in which district, it was announced, the Syndicate will construct approximately 75 miles northeast of such plant a hydro-electric generating plant with an estimated initial capacity of 26,000 h.p. The territory in which, according to such announcement, the Syndicate will distribute electricity so generated, is not served by the Company.

PURPOSE OF ISSUE

The entire net proceeds of the sale of the \$62,500,000 principal amount of First Mortgage Bonds 3¾% Series A and Series B due 1969 and of the sale of the 35,000 5½% Cumulative Preferred Shares now offered, and of the loans obtained under the Bank Loan Agreement dated April 5, 1939, together with treasury funds will be used by the Company in the redemption on June 1, 1939 in lawful money of Canada or of the United States of America, at the option of the holders, of the \$68,014,500 principal amount of its First Mortgage Gold Bonds 5% Series Due 1956 (being all of such bonds outstanding exclusive of bonds held in the treasury) at 104% of the principal amount thereof. Interest to June 1, 1939 on the bonds being redeemed will be paid out of treasury funds.

FUNDED DEBT AND CAPITAL STOCK
(upon completion of present financing)

The capital securities of the Company authorized and outstanding as of December 31, 1938, but adjusted to reflect the issuance and sale of the 35,000 5½% Cumulative Preferred Shares now offered, the \$62,500,000 First Mortgage Bonds 3¾% Series A and Series B due 1969 and the borrowing of \$7,300,000 against the issuance of a like principal amount of its Promissory Notes under the provisions of the Bank Loan Agreement dated April 5, 1939, and the application of the net proceeds as set forth under the caption "Purpose of Issue" herein are tabulated below:

Funded Debt:	Authorized	Outstanding on the basis stated above
First Mortgage Bonds.....	Unlimited (1)	
3¾% Series A due 1969.....		\$52,500,000
3¾% Series B due 1969.....		10,000,000
Underlying Obligation (2).....	\$ 249,722	185,278(3)
Total secured funded debt.....		<u>\$62,685,278(3)</u>
Serial and Sinking Fund Debentures.....	13,000,000	
3% Series due June 1, 1939.....		(4)
3½% Series due June 1, 1940.....		\$ 600,000
4% Series due June 1, 1941.....		600,000
4¼% Series due June 1, 1942.....		600,000
4¼% Series due June 1, 1943.....		600,000
5% Sinking Fund Debentures due 1949.....		9,901,000
Promissory Notes, 3.65% due 1939-1949(5).....	7,300,000	7,300,000
Total unsecured funded debt.....		<u>\$19,601,000(4)</u>
Total Funded Debt.....		<u><u>\$82,286,278</u></u>
Capital Stock:		
5% Cumulative Preferred Shares (\$100 par value).....	121,960 shs.	\$12,196,000
5½% Cumulative Preferred Shares (\$100 par value).....	50,000 shs.	3,500,000
Common Stock (no par value).....	3,000,000 shs.	25,161,596(6)
Total Capital Stock.....		<u><u>\$40,857,596</u></u>

- (1) First Mortgage Bonds of Series A and B or other series may be issued as provided in the Indenture, limited to the aggregate principal amount of \$250,000,000 unless the authorized amount is increased by supplemental indenture.
- (2) 5% Property Purchase Obligation to Town of St. Jerome payable in equal annual instalments of \$8,055.55, final payment due March 1, 1962.
- (3) Exclusive of instalment of \$8,055.55 paid March 1, 1939 included in current liabilities as of December 31, 1938.
- (4) \$600,000 3% Serial Debentures due June 1, 1939 included in current liabilities as of December 31, 1938.
- (5) Maturing serially in the principal amount of \$400,000 on October 15, 1939 and on each April 15 and October 15 thereafter to and including April 15, 1944 and \$330,000 on October 15, 1944 and on each April 15 and October 15 thereafter to and including April 15, 1949.
- (6) Represented by 1,635,950 shares. The Company gave, as an incident to the issuance of \$10,000,000 principal amount of 5% Sinking Fund Debentures, rights to subscribe between June 27, 1938 and December 31, 1942 for 10 Common Shares (as constituted on June 1, 1938), at \$10 per share, for each \$1,000 principal amount of such Debentures. On December 31, 1938, 86,010 Common Shares were reserved for issuance upon the exercise of such rights.

MATURITIES AND SINKING FUND PAYMENTS

The provisions of the Indentures and the Bank Loan Agreement relating respectively to the First Mortgage Bonds of Series A and Series B, the Serial and Sinking Fund Debentures and the Promissory Notes referred to herein require the Company to redeem through sinking funds and to retire at maturity the following principal amounts of such Funded Debt prior to 1950:

Year	First Mortgage Bonds	Serial and Sinking Fund Debentures	Promissory Notes	Total
1939.....	—	\$ 600,000	\$400,000	\$1,000,000
1940.....	—	600,000	800,000	1,400,000
1941.....	—	600,000	800,000	1,400,000
1942.....	—	600,000	800,000	1,400,000
1943.....	—	600,000	800,000	1,400,000
1944.....	—	600,000	730,000	1,330,000
1945.....	\$315,000	600,000	660,000	1,575,000
1946.....	315,000	600,000	660,000	1,575,000
1947.....	315,000	600,000	660,000	1,575,000
1948.....	315,000	600,000	660,000	1,575,000
1949.....	315,000†	6,901,000*	330,000	7,546,000*

† Thereafter the Indenture provides for the redemption of First Mortgage Bonds through the Sinking Fund, as follows: from 1950 to 1954, both inclusive \$625,000; from 1955 to 1959, both inclusive, \$850,000; from 1960 to 1964, both inclusive, \$1,250,000; from 1965 to 1968, both inclusive, \$1,500,000; and on January 1, 1969, \$1,500,000. Sinking fund retirements in the years 1945 to 1969 inclusive based on this schedule aggregate \$22,700,000 principal amount.

* Includes the maturity of the balance of \$6,301,000 Sinking Fund Debentures due 1949 not theretofore retired through the operation of the sinking fund or the application of the proceeds, received prior to December 31, 1938, upon the exercise of the rights to subscribe for Common Shares contained in the Stock Subscription Warrants. The Company is obligated to apply the proceeds from the exercise of such rights, received after December 31, 1938, to the redemption of additional Sinking Fund Debentures.

As shown above, Funded Debt (excluding the Underlying Obligation) scheduled for retirement prior to January 1, 1945 aggregates \$7,930,000 principal amount. The maximum principal amount of Funded Debt scheduled for retirement in any calendar year prior to 1945 aggregates \$1,400,000 as compared with \$1,575,000 in each of the years 1945 to 1948 inclusive. This \$175,000 increase in scheduled Funded Debt retirement is less than the annual interest requirements of \$302,045 in respect of aggregate Funded Debt scheduled for retirement by 1945.

SUMMARY OF EARNINGS

The following summary of earnings of the Company and its subsidiaries consolidated, for the three calendar years ending December 31, 1938, has been prepared by Messrs. P. S. Ross & Sons, Chartered Accountants, from the financial statements included herein which have been certified by said firm:

	Year Ending December 31,		
	1936	1937	1938
Gross Revenues.....	\$8,115,564	\$8,680,996	\$8,789,523
Operating, general and administrative expenses.....	\$ 841,344	\$ 885,464	\$ 922,795
Maintenance.....	231,768	273,864	218,906
Taxes (other than income taxes).....	294,575	310,467	327,329
Total Expenses.....	\$1,367,687	\$1,469,795	\$1,469,030
Gross Income before provision for depreciation and income taxes.....	\$6,747,877	\$7,211,201	\$7,320,493
Provision for depreciation charged against operations.....	646,825	656,789	664,727
Gross Income available for fixed charges, income taxes and dividends.....	\$6,101,052	\$6,554,412	\$6,655,766
Deduct:			
Interest—			
Funded debt.....	\$4,466,069	\$4,323,436	\$4,188,508
Affiliated company—Canadian Hydro-Electric Corporation, Limited.....	278,589	211,878	—
Other.....	9,929	3,750	2,174
Provision for income taxes.....	6,259	34,899	133,237
Amortization of discount and expense.....	338,410	336,282	379,846
Amortization of organization expense.....	2,400	2,400	2,400
	<u>\$5,101,656</u>	<u>\$4,912,645</u>	<u>\$4,706,165</u>
Net Income added to Surplus.....	<u>\$ 999,396</u>	<u>\$1,641,767</u>	<u>\$1,949,601</u>

The above summary of earnings is subject to and is to be read in conjunction with the comments which appear in the accountants' certificate on page 7 herein and the notes on and to said financial statements which appear herein on pages 7 to 11.

Upon completion of this financing the annual dividend requirements on the 121,960 5% Cumulative Preferred Shares and on the 35,000 5½% Cumulative Preferred Shares will amount to \$802,300 and the annual interest requirements on Funded Debt will aggregate \$3,228,917 (of which \$2,235,200 will be payable in United States funds). In part as a result of this financing the amounts of certain annual deductions from gross income will be changed from the amounts shown in the above table. It is calculated that if such changes together with the annual interest requirements of \$3,228,917, mentioned above, had been in effect during 1938, then the "Net Income added to Surplus" would have been not less than the amount of \$1,949,601 shown in the above earnings summary and that if such changes and interest requirements had been in effect during 1936 and 1937, then the "Net Income added to Surplus" in each of such years would have been in excess of the respective amounts of \$999,396 and \$1,641,767 shown in the above earnings summary.

SECURITY FOR FIRST MORTGAGE BONDS

The \$62,500,000 First Mortgage Bonds 3¾% Series A and Series B due 1969 (to be outstanding upon the completion of the present financing) will be issued under and secured by the Indenture, consisting of the Trust Deed of Hypothec, Mortgage and Pledge executed in favor of The Royal Trust Company under formal date of June 1, 1926, as supplemented by 19 Supplementary Trust Deeds and as to be further supplemented by Supplementary Trust Deeds dated as of April 20, 1939. The Indenture, in the opinion of counsel for the Company, will constitute a valid first (except for Permitted Charges as defined in the Indenture) fixed and specific hypothec, mortgage, pledge and charge and cession and transfer (or one or more of such forms of security according to the location of the property) on and of all the Company's hydro-electric generating plants and flowage rights pertaining thereto (with certain exceptions), its steam electric plant, transmission lines and principal sub-stations, all its fixed machinery, all its right, title and interest in other immoveable properties (with certain exceptions), shares of the capital stock of Gatineau Transmission Company and Saint John River Storage Company, and a valid floating charge on all the other assets (with certain exceptions) of the Company, both present and future. The Company under the Indenture will assign to the Trustee a Promissory Note for \$950,000 of Gatineau Transmission Company and a Promissory Note for \$450,000 of Saint John River Storage Company. The Indenture contains an "after acquired property clause" purporting to subject to the specific charge and lien of the Indenture all real and immoveable property and rights acquired by the Company after April 11, 1939 and the Company has agreed to give full effect to this clause by the execution and registration from time to time of the appropriate Supplementary Trust Deeds. The Indenture also contains a covenant by the Company that it will not dispose of or charge as security for indebtedness or terminate or amend the 220 kv. 25 cycle and the 110 kv. 60 cycle contracts with The Hydro-Electric Power Commission of Ontario (referred to herein under the caption "Power Contracts with The Hydro-Electric Power Commission of Ontario"), the three contracts with Canadian International Paper Company, one relating to motive power for its Gatineau mill and the other two relating to motive power and steam generation at its Kipawa mill, and the three contracts with the New Brunswick International Paper Company for primary power, secondary power and use of transmission facilities (all of which are referred to herein under the caption "History and Business"). The Indenture provides further that the Company may, with the written consent of the Trustee, modify or amend any or all of such contracts or settle claims thereunder or substitute any contracts therefor, provided that no such consent shall be required for modifications or amendments of an administrative nature.

INCURRING OF FUTURE INDEBTEDNESS

Brief Summary Respecting the Issue of Additional First Mortgage Bonds

The terms of the Indenture under which the First Mortgage Bonds 3¾% Series A and Series B due 1969 will be issued will limit the aggregate principal amount of Bonds authorized to be issued thereunder to \$250,000,000, but will provide for increasing such limit by supplemental indenture if the Company desires to issue Bonds in excess of such limit or if at any time by reason of the rate of exchange the total obligation of the Company on outstanding Bonds, computed in terms of Canadian dollars, exceeds such limit. Within the above limits, so long as the Company is not in default, additional Bonds of any series may from time to time be issued on compliance with the provisions and conditions contained in the Indenture, to a principal amount not exceeding 70% of the "Net Amount of Additional Property" (as defined in the Indenture) of the Company, or not exceeding 100% of the principal amount of "Pledged Subsidiary Bonds" (as defined in the Indenture) deposited with the Trustee, but only in each case if the Consolidated Net Earnings of the Company and Pledged Subsidiaries on a consolidated basis for a period of twelve consecutive calendar months within the seventeen calendar months next preceding the application for authentication of such Bonds (after allowance for maintenance and repairs, and taxes other than income taxes, but without allowance for interest charges, depreciation, retirements or amortization) is at least two and one-half times the annual interest charges on the Bonds and equal prior obligations, if any, to be outstanding after such additional issue. Bonds may not be issued on the basis of Pledged Subsidiary Bonds if as a result the aggregate principal amount of Pledged Subsidiary Bonds upon the basis of which Bonds have been issued then held by the Trustee plus the amount of cash then on deposit in anticipation of the issue of Bonds on such basis would exceed 10% of the aggregate principal amount of all Bonds that would then be outstanding under the Indenture.

Additional Bonds of any series within the above limits may also be issued by the Company in anticipation of the acquisition or construction of Additional Property or the deposit of Pledged Subsidiary Bonds on like terms and conditions, upon deposit with the Trustee of cash in an amount equal to the principal amount of the Bonds so issued; and such cash may be repaid to the Company from time to time upon the basis of the Net Amount of Additional Property or of Pledged Subsidiary Bonds, in lieu of and in amount equal to the principal amount of, the Bonds which would be issuable on the basis thereof, but without compliance with any net earnings requirement.

Additional Bonds of any series within the above limits may also be issued so long as the Company is not in default, for the purpose of refunding or upon deposit of cash in anticipation of refunding, to the extent of an equal aggregate principal amount, Bonds theretofore outstanding under the said Indenture, without compliance with any net earnings requirement.

The conditions governing the issue of "Pledged Subsidiary Bonds" are substantially similar to those respecting the issue of additional First Mortgage Bonds.

Summary of Certain Provisions of the Trust Indenture in Respect of the Serial and Sinking Fund Debentures

The Trust Indenture between the Company and Montreal Trust Company dated as of June 1, 1938 in respect of the Serial and Sinking Fund Debentures issued thereunder to an amount of \$13,000,000 which mature to and including June 1, 1949, provides that the Company shall not issue, create or assume except as therein provided any money indebtedness of the Company of a character not ordinarily considered as a current loan and represented by an instrument or instruments the date or dates of stated maturity whereof is or are respectively more than one year after the date in respect of which the calculation or computation is being made unless the Company's "Available Income" (as defined in the Trust Indenture) for the "Income Period" (as defined in the Trust Indenture) shall amount to not less than one and one-half times the Company's annual interest charges on all interest bearing obligations of the Company to be outstanding after the issue, creation or assumption of the said money indebtedness.

Summary of Certain Provisions of the Bank Loan Agreement dated April 5, 1939

In the Bank Loan Agreement dated April 5, 1939 in respect of loans to an amount of \$7,300,000 which will mature serially to and including April 15, 1949, it is provided that (unless the holders of at least 75% in principal amount of the Promissory Notes evidencing such loans at the time outstanding shall previously have consented in writing thereto) the Company will not itself and will not cause or permit any of its Subsidiaries (other than an Exempted Subsidiary as defined therein) to create, assume or incur: (a) any indebtedness or obligation secured by any hypothec, mortgage, pledge or other charge on or of any property of the Company or of any such Subsidiary or give any security for any obligation of the Company or of any such Subsidiary by way of hypothec, mortgage, pledge or other charge on or of any of the said property, but these restrictions are not applicable to certain indebtedness or obligations of the categories set out in the Agreement nor to any security which the Company or any such Subsidiary may give to secure any such indebtedness or obligations; (b) any indebtedness nor guarantee or become liable for the payment of any indebtedness of others except certain classes of indebtedness provided for in the Agreement, including, the right to incur additional indebtedness after April 1, 1940 for the purposes of the acquisition or construction or reimbursement for expenditures for the acquisition or construction of additional property used or useful in the conduct or expansion of the electric business of the Company or its Subsidiaries, provided that the amount of such additional indebtedness shall not exceed \$1,000,000 at any one time outstanding prior to April 1, 1941, thereafter and prior to April 1, 1942 shall not exceed \$2,000,000 at any one time outstanding and thereafter shall not exceed \$3,000,000 at any one time outstanding.

GENERAL

The statements made herein as to matters of law and legal conclusion under the captions "Property," "Provincial Electricity Board," "Miscellaneous Information," "Security for First Mortgage Bonds" and "Incurring of Future Indebtedness" are made on the authority of counsel for the Company.

In this letter no distinction is made between Canadian and United States Dollars except where specifically stated otherwise.

We have made an examination of the consolidated balance sheet of Gatineau Power Company and subsidiary companies as at December 31, 1938, and of the related statements of profit and loss and earned surplus for the three years ended December 31, 1938. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the three years above mentioned, but we did not make a detailed audit of the transactions. We have not examined the companies' titles to the properties, leases and franchises, and in accordance with our practice we, as auditors, disclaim any responsibility therefor.

In our opinion and in accordance with accepted principles of accounting, annual provisions for current depreciation accruing on properties, are properly chargeable to current profit and loss account. In addition to the provisions for depreciation determined by the management and charged to current profit and loss account, further amounts designated as provisions for depreciation have been charged directly to paid-in surplus account as described on the accompanying financial statements. We, as auditors, take no responsibility for the adequacy of either of these provisions for depreciation.

In our opinion, based upon the examination referred to above and subject to the above comments on depreciation, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus and the notes thereto, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the three years under review, the financial position of Gatineau Power Company and its subsidiaries at December 31, 1938 and the results of their operations for the three years ended on that date.

Montreal, Que.
April 10, 1939,

(Signed) P. S. Ross & Sons,
Chartered Accountants.

GATINEAU POWER COMPANY
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1938
(See note 1)

Capital Assets:

Plants and properties; development costs; water power and storage rights and intangibles (includes \$6,798,801.50 cost and expenses of certain storage works which upon completion became the property of the Province of Quebec) (see note 2)			\$132,118,071.88
Investments: (see note 3)			
Securities (at cost) on deposit with Provincial Government	\$ 19,272.00		
Other security investments at cost, in part from affiliates (includes \$360,000 having a quoted value of \$130,900; as to the balance no quoted values available)	2,444,335.30	2,463,607.30	
Total			\$134,581,679.18
The amounts at which plants and properties and investments are stated do not purport to represent realizable values.			

Current Assets:

Cash		\$1,571,568.60	
Marketable securities at cost (Dominion of Canada bonds, quoted value \$150,000.00)		149,250.00	
Accounts receivable:			
Customers	\$605,292.97		
Less: Reserve for doubtful accounts	74,549.64		
	\$530,743.33		
Others	\$7,258.37		
Less: Reserve for doubtful accounts	500.00	6,758.37	
Due from affiliated companies not consolidated, settled currently, ...	251,669.94	789,171.64	
Inventories (as determined and certified by the management and valued at cost or less)—Materials and supplies (principally for maintenance and construction), merchandise and appliances	\$213,928.54		
Less: Reserve for inventory losses	16,028.75	197,899.79	2,707,890.03

Deferred Assets and Expenses:

Cash on deposit with trustee	\$ 78,900.00		
Accounts receivable not currently due (see note 4)	69,610.37		
Prepaid insurance and taxes	114,661.53		
Deferred assets and charges applicable to future operations	123,669.69		
Difference between cost and par value of reacquired bonds held in treasury, plus discount applicable thereto	22,226.35		
Organization expenses	10,713.57		
Unamortized debt discount and expense (see note 5)	5,344,103.34	5,763,884.85	
			\$143,053,454.06

LIABILITIES

Funded Debt:

Gatineau Power Company (after deducting \$215,500.00 in treasury) (see note 6 and note 9) ..			\$ 80,500,777.85
--	--	--	------------------

Current Liabilities:

Accounts payable	\$ 93,059.93		
Customers' deposits	40,918.61		
Accrued payrolls	19,607.21		
Accrued taxes	281,876.72		
Accrued interest	342,203.48		
Dividend payable January 1, 1939, on preferred shares	152,450.00		
Accrued rentals and royalties	57,259.77		
Other accrued items	30,699.30		
Property purchase obligation due in 1939	8,055.55		
3% Serial debentures due in 1939	600,000.00		
Due to affiliated companies not consolidated, settled currently	47,501.10	1,673,631.67	

Reserves:

Depreciation and amortization (see note 10)			
Arising from charges to paid-in surplus	\$10,625,500.00		
Arising from charges to profit and loss	6,763,625.27		
Total	\$17,389,125.27		
Less: Retirements to date	13,104.15		
	\$17,376,021.12		
Other	9,338.27	17,385,359.39	

Capital Stock (see note 7) and Surplus:

	Shares Authorized†	Shares Outstanding	
5% Cumulative Preferred \$100. par	121,960	121,960*	\$12,196,000.00
Common, without nominal or par value	3,000,000**	1,635,950	25,161,596.96
Surplus:			
Paid-in (see note 16)			468,724.88†
Earned (see page 8)			5,667,363.31‡
			\$43,493,685.15
			\$143,053,454.06

*Redeemable at any time on 60 days' notice at \$110 per share.

**86,010 shares reserved for issue under stock subscription rights (exercisable any time prior to December 31, 1942) granted as an incident to the issue of 5% Sinking Fund Debentures maturing 1949 (see note 7).

†By Supplementary Letters Patent issued March 8, 1939, the authorized Capital Stock was increased by the creation of 50,000 5½% Cumulative Preferred Shares, none of which are yet outstanding.

‡During the years 1933 through 1938 (see note 10) amounts aggregating \$10,625,500 have been charged to paid-in surplus as additional provisions for depreciation. If this amount had been charged to profit and loss account instead of paid-in surplus, the balance of earned surplus at December 31, 1938 would have been a deficit of \$4,958,136.69 and the balance of paid-in surplus would have been \$11,094,224.88.

See explanatory notes on pages 9 to 11 which are an integral part of the above statement.

GATINEAU POWER COMPANY
AND SUBSIDIARY COMPANIES

**STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS
FOR THREE YEARS ENDED DECEMBER 31, 1938**

	Year ended December 31,		
	1936	1937	1938
Operating Revenue and Other Income:			
Operating revenue—			
Power sales			
Sales to The Hydro-Electric Power Commission of Ontario (see note 12)...	\$3,055,132.65	\$3,095,265.72	\$3,438,439.59
Sales to other electric systems.....	483,684.44	523,736.99	580,944.30
Sales to affiliated companies (including rental of plant).....	3,153,403.38	3,406,255.26	3,096,559.26
Other power sales.....	681,646.20	782,621.52	735,159.28
Domestic and commercial sales.....	635,466.97	675,644.45	723,087.10
Municipal lighting sales.....	51,541.26	52,036.40	52,918.36
Transportation revenue.....	—	19,366.77(1)	56,609.88
Total operating revenue.....	\$8,060,874.90	\$8,554,927.11	\$8,683,717.77
Other income—net—			
Interest income.....	\$ 9,475.69	\$ 10,047.20	\$ 13,845.87
Dividend income.....	—	49,475.00	49,483.25
Other security investments.....	23,507.42	34,316.11	35,806.27
Profit on merchandise sales and jobbing.....	7,774.76	11,495.68	14,060.83
Rental of miscellaneous properties.....	20,597.54	20,895.78	29,752.44
Miscellaneous.....	61,355.41	126,229.77	142,948.66
Less: Loss on exchange.....	6,666.08	161.08	37,142.51
Total other income—net.....	\$ 54,689.33	\$ 126,068.69	\$ 105,806.15
	\$ 8,115,564.23	\$ 8,680,995.80	\$ 8,789,523.92
Expenses:			
Operating expenses.....	\$ 516,044.91	\$ 559,701.60	\$ 587,111.97
Maintenance (see note 10).....	231,767.79	273,864.33	218,906.41
Taxes (other than income taxes).....	294,575.32	310,467.50	327,329.18
General and administrative expenses.....	318,829.41	323,137.89	330,953.50
Provision for doubtful accounts.....	6,469.84	2,623.70	4,729.18
	\$ 1,367,687.27	\$ 1,469,795.02	\$ 1,469,030.24
	\$ 6,747,876.96	\$ 7,211,200.78	\$ 7,320,493.68
Deduct:			
Interest—			
Funded debt (see note 14).....	\$ 4,466,068.81	\$ 4,323,435.94	\$ 4,188,507.21
Affiliated company—Canadian Hydro-Electric Corporation, Limited.....	278,589.23	211,878.93	—
Other.....	9,928.25	3,749.09	2,173.98
Provision for depreciation charged against operations (see note 10).....	646,825.22(2)	656,789.45(2)	664,727.48(2)
Provision for income taxes.....	6,258.82	34,898.19	133,236.43
Amortization of discount and expense (see note 5).....	338,410.44	336,282.16	379,846.67
Amortization of organization expense.....	2,400.00	2,400.00	2,400.00
	\$ 5,748,480.77	\$ 5,569,433.76	\$ 5,370,891.77
Net Income added to Earned Surplus (see note 13).....	\$ 999,396.19(2)	\$ 1,641,767.02(2)	\$ 1,949,601.91(2)
Balance at beginning of period.....	2,362,717.96	3,437,759.58	5,086,741.12
Profit on bonds and debentures reacquired and redeemed.....	75,645.43	7,214.52	22,319.46
Totals.....	\$ 3,437,759.58	\$ 5,086,741.12	\$ 7,058,662.49
Deductions:			
Charges against Surplus (see note 15).....	—	—	\$ 129,475.18
Dividends—on preferred shares.....	—	—	609,800.00
on common shares.....	—	—	652,024.00
Totals.....	—	—	\$ 1,391,299.18
Balance of Earned Surplus at close of period.....	\$ 3,437,759.58(2)	\$ 5,086,741.12(2)	\$ 5,667,363.31(2)

(1) For the period from date of acquisition of capital stock of subsidiary motor transportation company by the Company September 1, 1937.

(2) In each of the above years, additional provisions for depreciation in the amount of \$1,750,000 were charged directly to paid-in surplus (see note 10). If these additional charges had been made against profit and loss instead of paid-in surplus, there would have been a deficit of \$750,603.81 and \$108,232.98 to surplus in the years 1936 and 1937, respectively, and in the year 1938 net income added to surplus would have been \$199,601.91, and the balance in earned surplus at the close of the years 1936, 1937 and 1938 would have been a deficit of \$3,687,740.42, \$3,778,758.88 and \$4,958,136.69, respectively, and the balance in paid-in surplus would have been \$13,094,224.88, \$11,094,224.88 and \$11,094,224.88 respectively.

See explanatory notes on pages 9 to 11 which are an integral part of the above statement.

GATINEAU POWER COMPANY

AND SUBSIDIARY COMPANIES

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Consolidation:

The accounts for the year ended December 31, 1938 of all subsidiary companies of the Company are included in the accompanying consolidated financial statements. All subsidiaries of the Company are wholly owned.

All inter-company accounts between subsidiary companies and the Company have been eliminated in the accompanying consolidated balance sheet. In consolidating the income accounts of subsidiary companies with that of the Company all inter-company sales and profits have been eliminated.

The Company does not follow the practice of recording in its investment and surplus accounts the undistributed earned surpluses (less deficits) of subsidiaries arising since dates of acquisition. On December 31, 1938 the accumulated operating deficits of subsidiaries amounted to \$50,545.82 and accumulated earned surpluses amounted to \$40,370.25 or a net deficit of \$10,175.57.

On December 31, 1938, the Company's equity in the net assets of its subsidiaries consolidated, as shown by the books of the latter, was \$60,336.56 less than investments in subsidiaries consolidated as shown by the books of the company. Of this amount \$10,175.57 represents accumulated net deficits of subsidiaries consolidated and \$50,160.99 represents excess paid for the capital stock of a subsidiary company over the stated value thereof on the books of the subsidiary at the date of acquisition; the capital stock of this subsidiary was acquired by the company under the plan of amalgamation of Canadian Hydro-Electric Corporation, Limited with the company and the purchase price was identical with the cost to Canadian Hydro-Electric Corporation, Limited. In consolidation of the accounts at December 31, 1938, the amount of \$50,160.99 was added to plants and properties and the \$10,175.57 was applied against earned surplus.

(2) Plants and Properties; Development Costs; Water Power and Storage Rights and Intangibles:

Plants and properties; development costs; water power and storage rights and intangibles are stated at cost of construction or acquisition, in part from affiliates, to the Company and its subsidiaries on the basis of cash paid or par or stated value of capital stocks issued therefor, including \$50,160.99 representing excess paid for the capital stock of a subsidiary company over the stated value thereof on the books of the subsidiary at the date of acquisition. The company advises that for acquisitions of power properties, rights and intangibles acquired from affiliates for which shares of capital stock were issued, a report as to valuations was obtained from a firm of independent engineers which report, together with resolution of the Board of Directors, formed the basis of determination of acquisition values.

The Company was organized in 1926 and at that time acquired power properties, rights and intangibles from affiliates aggregating \$37,350,000. Subsequently other acquisitions of power properties, rights and intangibles amounting to \$11,170,000 were made from the affiliates. As part consideration for these acquisitions there was issued to the affiliates \$32,000,000 par or stated value of preferred and common stocks of the Company and of an affiliate substantially all of whose assets have since been acquired by the Company, and the balance was paid in cash.

The Company advises that among the properties and rights included in these transactions were (1) four undeveloped water power sites (Paugan, Chelsea and Farmers on the Gatineau River and Grand Falls on the Saint John River) at which sites power plants have since been constructed with an aggregate installed water wheel capacity of 584,000 horsepower, (2) a developed power plant (Kipawa) having an installed water wheel capacity of 27,550 horsepower, and (3) a steam electric plant (Dalhousie) having an installed turbine capacity of 9,000 horsepower.

In connection with these transactions and the acquisition of certain investments as referred to in note 3, the affiliates have informed the Company that the more important physical properties involved were portions of much larger acquisitions made by them on various occasions prior to 1926 for lump sums, and that the separate cost of such properties cannot be determined. At about the same time as some of the above acquisitions from affiliates, certain of the affiliates executed contracts with the Company, and with another affiliate (which subsequently became a subsidiary of the Company) for electricity to be furnished to several mills of the affiliates and for steam and the use of transmission and transformer facilities at one such mill; these contracts involve substantial periodic payments over long terms. The affiliates have also informed the Company that the extent, if any, to which a part of the substantial periodic payments under these long term contracts should be considered as an element in computing the amounts received by the affiliates for the assets transferred, is not susceptible of definite determination, and that therefore, it is not possible to estimate on any reliable basis whether the total amount at which such assets are carried in the Company's corporate and consolidated statements includes a profit or a loss to the affiliates as a result of the foregoing transactions.

In addition to the above acquisitions from affiliates certain properties were acquired in 1927 by the Company and a company which is now a subsidiary, from Canadian Hydro-Electric Corporation, Limited (which acquired control of the Company in 1927 and which was amalgamated with the Company in 1937—see note 7). The purchase price was \$5,190,357.83 in excess of the cost of such properties to the Canadian Hydro-Electric Corporation, Limited.

Includes an amount of \$6,798,801.50 representing the cost and expenses to the company of storage reservoirs and accompanying works, exclusive of certain unsegregated items, which upon completion became the property of the Province of Quebec, but which are operated by the Government, through the Quebec Streams Commission, under long term contracts with the company for regulation of the flow of the Gatineau River at Chelsea for the benefit of the Company and any other power owners on said river. The cost of these storage works is being amortized on an annuity basis over periods of 40 years from the dates (1927 and 1929) of completion of the respective reservoirs.

The Company advises that no segregation of intangible and tangible values of fixed assets has been made pursuant to any order by any regulatory body or otherwise, and states that to obtain such a segregation is not feasible because of the unreasonable effort and expense that would be involved.

(3) Investments:

At December 31, 1938, \$19,600 principal amount of Dominion of Canada Bonds owned by the Company and shown on the balance sheet at a cost of \$19,272 was on deposit with the Provincial Government of Quebec as guarantee under leases.

In September 1937 the Company acquired under the plan of amalgamation of Canadian Hydro-Electric Corporation, Limited with the Company (see note 7) 49+ $\frac{1}{2}$ % of the voting stock of The E. B. Eddy Company, Limited, and 4,700 common shares of Eddy Match Company, Limited and 6,545 shares of Shawinigan Water & Power Company. The Company's investment in these companies is carried on its books at \$2,444,329.30 which is the identical value at which such investments were carried by Canadian Hydro-Electric Corporation, Limited. The aforementioned securities were acquired by Canadian Hydro-Electric Corporation, Limited from affiliated companies (see note 2). Other security investments owned by the companies are carried on the books at a nominal value of \$6.00.

(4) Accounts Receivable not Currently Due:

Accounts receivable not currently due includes \$63,931.56 due under instalment sales contracts.

(5) Unamortized Debt Discount and Expense:

This amount represents the unamortized balance of debt discount and expense and includes \$329,924.68 of unamortized debt discount and expense and cost of retirement, including exchange premium paid upon redemption, of refunded obligations which, pending instructions from the Provincial Electricity Board, is being amortized ratably over the periods to stated dates of maturity of the refunding issues. All other debt discount and expense is being amortized ratably by charges to profit and loss over the respective periods to maturity with appropriate adjustments of discount for bonds and debentures reacquired and retired.

Unamortized debt discount applicable to bonds reacquired but not retired at December 31, 1938, has been included on the balance sheet in the item "difference between cost and par value of reacquired bonds held in treasury".

The amount of unamortized debt discount and expense on the First Mortgage Gold Bonds due 1956 amounts to \$4,359,178.36. The company intends to call these bonds for redemption on June 1, 1939 at par plus a premium of 4%. Based on the amount of bonds outstanding at December 31, 1938, the total call premium will amount to \$2,720,580. The jurisdiction of the Provincial Electricity Board extends to the manner in which the unamortized debt discount and expense on and cost of retirement of refunded obligations shall be dealt with and it is expected that an Order of the Board will be issued in due course in this connection.

GATINEAU POWER COMPANY AND SUBSIDIARY COMPANIES

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Funded Debt:

In June 1938, the Company made the following issue of debentures:	
5% Sinking Fund Debentures dated June 1, 1938 and maturing June 1, 1949.....	\$10,000,000.00
Serial Debentures dated June 1, 1938, bearing interest at rates varying from 3% to 4¼% and maturing \$600,000.00 per annum 1939 to 1943.....	3,000,000.00

As an incident to the sale of the above mentioned \$10,000,000.00 5% Sinking Fund Debentures the Company issued stock subscription warrants entitling the holder to subscribe at any time prior to December 31, 1942, for Common Shares (as constituted on June 1, 1938) of the Company at \$10.00 per share on the basis of 10 shares in respect of each \$1,000.00 principal amount of Debentures.

The Trust Indenture in respect of the Serial and Sinking Fund Debentures provides that any moneys received from the exercise of these rights must be deposited with the Trustee to be applied to the purchase or retirement of 5% Sinking Fund Debentures. To December 31, 1938, there was received by the Trustee from the exercise of these rights \$139,900.00 of which \$99,000.00 was applied to the purchase of a like principal amount of 5% Sinking Fund Debentures and the balance of \$40,900.00 remained on deposit with the Trustee.

Simultaneously with the sale of the foregoing Debentures, the Company delivered to the trustee for cancellation \$3,129,000.00 principal amount of 6% Debentures due 1941, which it had reacquired and held in its treasury, and called for redemption on July 29, 1938, its outstanding 6% Debentures due 1941 held by the public in the amount of \$13,011,500.00.

(7) Changes in Capitalization:

Supplementary Letters Patent were issued under the Quebec Companies Act under date of August 13, 1937 confirming a Special By-law enacted by the board of directors and sanctioned by the shareholders under date of August 11, 1937 converting and changing the authorized and outstanding capital stock, consisting of 250,000 6% Cumulative Preferred Shares of a par value of \$100.00 each and 500,000 Common Shares of a par value of \$5.00 each, into 121,960 5% Cumulative Preferred Shares of a par value of \$100.00 each and 998,304 Common Shares without nominal or par value, and concurrently increasing the authorized capital stock by the creation of 2,001,696 additional Common Shares without nominal or par value, so that thereafter the authorized capital stock of the Company consisted of 121,960 5% Cumulative Preferred Shares of a par value of \$100.00 each and 3,000,000 Common Shares without nominal or par value.

Pursuant to a contract dated June 3, 1937, as amended July 13, 1937 and effective as of September 1, 1937 between Canadian Hydro-Electric Corporation, Limited and the Company 623,656 of the additional Common Shares without nominal or par value so created were allotted and issued by the Company as part consideration for the sale and transfer by Canadian Hydro-Electric Corporation, Limited to the Company of all of its undertaking and assets, except shares of the Company.

The foregoing resulted in an increase in the capital stock account of \$9,717,696.96 representing value placed on 623,656 Common Shares without nominal or par value allotted and issued as referred to hereinbefore. This amount is made up of:

Net book value of assets of Canadian Hydro-Electric Corporation, Limited sold and transferred to the Company .	\$4,676,362.06
Release and discharge by Canadian Hydro-Electric Corporation, Limited of the Company from open account indebtedness.....	5,309,366.92
	<u>\$9,985,728.98</u>
Less: Surrender for cancellation by the Company of 3,040 cumulative 6% first preferred shares of Canadian Hydro-Electric Corporation, Limited.....	268,032.02
	<u>\$9,717,696.96</u>

As a result, the capital stock account of the Company as of September 1, 1937 was as follows:

5% cumulative preferred stock par value \$100.00 per share (authorized 121,960 shares; outstanding 121,960 shares).....	\$12,196,000.00
Common stock without nominal or par value (authorized 3,000,000 shares; outstanding 1,621,960 shares).....	25,021,696.96
	<u>\$37,217,696.96</u>

As an incident to the above mentioned changes in capitalization, all undeclared and unpaid cumulative dividends on the 250,000 shares of 6% Cumulative Preferred Stock of the Company were cancelled.

In June 1938, as an incident to the sale of \$10,000,000.00 5% Sinking Fund Debentures due 1949, the Company issued stock subscription warrants entitling the holder to subscribe at any time prior to December 31, 1942 for Common Shares (as constituted on June 1, 1938) of the Company at \$10.00 per share, on the basis of 10 shares in respect of each \$1,000.00 principal amount of Debentures.

To December 31, 1938 there was received, from the exercise of these rights, \$139,900.00 for which 13,990 shares were issued.

Supplementary Letters Patent were also issued under the Quebec Companies Act under date of March 8, 1939 increasing the authorized capital stock of the Company by the creation of 50,000 5½% Cumulative Preferred Shares of the par value of \$100.00 each so that thereafter the authorized capital stock of the Company consisted of:

121,960 5% Cumulative Preferred Shares of the par value of \$100.00 each
50,000 5½% Cumulative Preferred Shares of the par value of \$100.00 each
3,000,000 Common Shares without nominal or par value

(8) Contingent Liabilities:

No provision has been made in the accompanying financial statements for possible liability under pending law suits, claims for damages, etc. The management of the Company report such claims as aggregating approximately \$310,000.00, exclusive of two claims for flooding damages, the amounts of which are indefinite but are not believed to be of major importance

(9) Gold Obligations:

The obligation expressed in bonds to make payment in Canadian or United States gold coin is shown at face amount.

(10) Maintenance and Depreciation Policy:

The companies have followed the policy of charging to maintenance expense accounts, as incurred, the cost of current repairs and minor replacements of plants and properties, and in addition the cost of replacements, which, in the opinion of the management, do not represent an increase or improvement in plant capacity or serviceability.

The Company was instructed by the Provincial Electricity Board of the Province of Quebec under date of January 15, 1938, to retire from capital the original cost (estimated cost if actual cost not available) of plant displaced and to charge capital with the cost of the replacement. Since the issue of these instructions no major jobs of this nature were completed to December 31, 1938.

The provisions for depreciation as charged against operations have been determined by the management on the basis of percentage of gross operating revenue less rental of a steam plant and substation. Owing to reduced operating revenue the provisions calculated on this basis by Gatineau Power Company for the years 1936, 1937 and 1938 were increased so that the total provision for depreciation and amortization in each of these years would not be less than that provided in the year 1935.

Included in the provisions for depreciation charged against operations are the following amounts; 1938 \$124,662.08. 1937 \$116,845.35 and 1936 \$111,431.68, representing amortization of storage works and certain rented property. The provision being made for the amortization of the cost of these works and plants is on an annuity basis.

GATINEAU POWER COMPANY

AND SUBSIDIARY COMPANIES

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **(Continued)**

Additional provisions for depreciation (\$1,750,000.00 for each of the years 1938, 1937, 1936 and 1935, and \$1,812,750.00 for each of the years 1934 and 1933) in excess of the amounts charged against operations in accordance with the depreciation policy expressed above, have been charged directly to paid-in surplus account of the Company. These additional provisions for depreciation were recorded on the books of the Company so as to comply with a ruling, issued in 1933 under the Income War Tax Act of Canada, which requires the depreciation claimed on tax returns to be incorporated in the "profit and loss, surplus or similar account" in the books of the taxpayer. The balance remaining in the paid-in surplus account at December 31, 1938 was \$468,724.88

The Company does not contemplate that the portion of the depreciation reserve arising from charges to paid-in surplus will be used in the future to relieve profit and loss or earned surplus of depreciation charges applicable thereto.

Depreciation deductions claimed in income tax returns for years prior to 1933 were substantially in excess of the annual provisions recorded as charges against operations.

(11) Foreign Exchange:

In the accompanying statements all figures have been stated at parity of exchange without adjustment of differences between Canadian and United States funds. It is the practice of the companies to reflect in current operations any difference between this rate and current quotations at the time funds are actually purchased or transferred.

(12) Contracts with The Hydro-Electric Power Commission of Ontario:

By action of the Legislature of the Province of Ontario effective December 6, 1935, contracts between the Company and The Hydro-Electric Power Commission of Ontario for sale by the Company and purchase by the Commission of electrical power, made in 1926 and 1927, respectively, were "declared to be and always to have been illegal, void and unenforceable as against" the Commission.

Effective November 1, 1935 the Company made new agreements with the Commission expiring not earlier than September 30, 1945. Under the new agreements, the Commission purchased during the period from November 1, 1935 to December 1, 1937, substantially smaller quantities of electricity than those called for by the 1926 and 1927 contracts. The prices under the agreements effective November 1, 1935 were fixed at \$12.50 a horsepower year for Contract Demand, \$10.00 a horsepower year for Immediate Standby and \$1.75 a horsepower year for General Reserve, which resulted in lower prices than under the 1926 and 1927 contracts.

Agreements were made with the Commission in December, 1937 revising and amending the 1926 and 1927 contracts extending their respective terms to 1970 and supplanting those which became effective November 1, 1935 but continuing the lower price. These amending agreements became effective December 1, 1937 and were ratified by the Legislature of Ontario in April, 1938. The amount of Contract Demand was increased annually, until by November 1, 1939 the Commission is required to pay for the full 320,000 h.p. covered by the 1926 and 1927 contracts at \$12.50 per horsepower year.

(13) Amalgamation of Canadian Hydro-Electric Corporation, Limited with Gatineau Power Company:

The amalgamation of Canadian Hydro-Electric Corporation, Limited with the Company became effective as at September 1, 1937; if it had been in effect for the entire year 1937 and the year 1936, the consolidated net income added to surplus would have been \$1,873,452.07 for the year 1937 and \$1,342,832.09 for the year 1936, instead of \$1,641,767.02 and \$999,396.19, respectively, as shown on the Statements of Consolidated Profit and Loss page 8.

(14) Interest on Funded Debt:

This item for the year 1938 includes \$68,444.05 interest on debentures redeemed or called for redemption applicable to periods during which interest expense was also incurred on refunding issues.

(15) Deductions from Earned Surplus:

Charges against earned surplus consist of (1) \$85,000.00 of rentals and survey expenses (capitalized prior to 1932), and \$25,000.00 guarantee deposit on undeveloped leased water power site, the lease for which was cancelled in 1938, (2) \$4,500.00 rentals of other undeveloped leased water power sites (capitalized prior to 1932) and (3) \$14,975.18 miscellaneous survey expenses on abandoned projects.

(16) Paid-in Surplus:

The balance remaining in the paid-in surplus account at December 31, 1938 amounting to \$468,724.88 represents the balance of \$13,094,224.88 arising in 1931 from cancellation of indebtedness to Canadian Hydro-Electric Corporation, Limited (which company controlled the Gatineau Power Company at that time), after deducting therefrom additional depreciation in the years 1933 to 1938 as described in note 10 amounting to \$10,625,500.00 and after a charge in 1937 of \$2,000,000.00 being the write-down of investment in capital stock of a subsidiary company, representing excess paid in 1929 for the common stock of the subsidiary over the value thereof on the books of the subsidiary at date of acquisition.

The above notes are an integral part of the accompanying financial statements.

The 35,000 Preferred Shares of the 5½% Series referred to herein are being offered in Canada, but not in the United States of America. This circular is not, and under no circumstances is to be construed as, an offering of any of such Preferred Shares for sale in the United States of America or the territories or the possessions thereof or an offering to any resident of the United States or a solicitation therein of an offer to buy any of this issue. Gatineau Power Company has filed with the Securities and Exchange Commission, Washington, D.C., a Registration Statement and Prospectus under the Federal (United States of America) Securities Act of 1933, as amended, with respect to the offer and sale of the \$62,500,000 principal amount of First Mortgage Bonds 3¾% Series A and Series B due 1969, referred to herein, which documents contain information not reproduced herein. A copy of such Prospectus is available on request to the Company.

NEW ISSUE

\$3,500,000

(Par Value)

Gatineau Power Company

(Incorporated under the laws of the Province of Quebec)

5½% Cumulative Preferred Shares

(par value \$100 per share)

Cumulative dividends accrue from April 1, 1939

Dividends on, redemption price of, and all other distributions in respect of these shares will be payable in lawful money of the Dominion of Canada

These 35,000 5½% Cumulative Preferred Shares are offered concurrently with the sale to certain underwriters by Gatineau Power Company (herein referred to as the "Company") of \$62,500,000 First Mortgage Bonds (of which \$52,500,000 are designated 3¾% Series A due 1969 and \$10,000,000 are designated 3¾% Series B due 1969) and concurrently with the issue of the Preferred Shares now offered, the Company will borrow \$7,300,000 against a like principal amount of its Promissory Notes under a Bank Loan Agreement dated April 5, 1939. The Series A Bonds and the Promissory Notes will be payable in lawful money of the United States of America and the Series B Bonds will be payable in lawful money of the Dominion of Canada.

The authorized amount of preferred stock is 171,960 shares and, upon completion of the present financing, there will be outstanding 121,960 5% Cumulative Preferred Shares of the par value of \$100 each (herein referred to as the "Preferred Shares of the 5% Series"), and the 35,000 5½% Cumulative Preferred Shares now offered, and there will be authorized but unissued 15,000 5½% Cumulative Preferred Shares; such 50,000 5½% Cumulative Preferred Shares being herein referred to as the "Preferred Shares of the 5½% Series".

The 35,000 Preferred Shares of the 5½% Series now offered will be fully paid and non-assessable; preferred as against common shares as to dividends and assets; entitled to preferential dividends, cumulative from and after April 1, 1939, at the rate of 5½% per annum, when and as declared by the directors of the Company, payable in quarterly instalments on the first days of January, April, July and October in each year. The Preferred Shares of the 5% Series and the Preferred Shares of the 5½% Series when issued, will rank pari passu as to dividends so that after the issue of any Preferred Shares of the 5½% Series no dividends shall be paid on or set apart for the Preferred Shares of either of such Series unless at the same time dividends at the rates respectively prescribed therefor, or at the same percentage of such rates, shall be paid on or set apart for the Preferred Shares of both such Series. On resolution of the directors of the Company, all or part of the Preferred Shares of the 5½% Series may be redeemed, upon at least sixty days' notice, at the price of \$110 per share plus an amount in each case equal to the full cumulative dividends thereon to the redemption date then remaining unpaid. If less than all the outstanding Preferred Shares of the 5½% Series are to be redeemed, the shares to be redeemed shall be selected by lot under such reasonable regulations as may be prescribed by resolution of the directors of the Company. In addition, the Company shall have the right, at its option, at any time and from time to time and without notice, to redeem all or any part of the Preferred Shares of the 5½% Series by purchase in the open market or by private contract, at not exceeding the redemption price thereof. In the event of any liquidation, bankruptcy, dissolution, winding-up or reorganization by amalgamation or otherwise of the Company, the holders of the Preferred Shares, without preference or priority of the shares of one Series over the shares of the other Series, will be entitled to be repaid out of the assets of the Company available for distribution to such holders \$110 per share and, in addition, an amount equal to full cumulative dividends to the date of such payment then remaining unpaid.

The holders of the Preferred Shares of the 5½% Series will have no voting rights except in respect of changes in the provisions appearing herein under the caption "Conditions Attaching to the Preferred and Common Shares" and except in respect of the creation of preferred stock ranking prior to or pari passu (apart from 78,040 additional preferred shares which may be created ranking as to capital and dividends and otherwise pari passu with the Preferred Shares of the 5½% Series) with the Preferred Shares of the 5½% Series, unless and so long as dividends are in arrears to the amount of 5½% or more, in which event the holders of such Preferred Shares shall be entitled to notice of all shareholders' meetings and to cast one vote for each Preferred Share held by them upon all matters submitted to a vote thereat. Such 78,040 additional preferred shares, together with the remaining authorized and unissued 15,000 Preferred Shares of the 5½% Series, may be issued from time to time only if for twelve consecutive months out of the fifteen months next preceding the month in which such shares are to be issued, the "net earnings" (ascertained in accordance with said "Conditions Attaching to the Preferred and Common Shares") of the Company shall have been at least equal to an amount one and one-half times the amount required for the payment of dividends for one year on the total of all shares of preferred stock of all series to be outstanding after the issue of such shares.

Reference is made to the full statement of the rights, priorities, privileges, restrictions, limitations, terms and conditions of the Preferred Shares of the 5½% Series appearing herein under the caption "Conditions Attaching to the Preferred and Common Shares".

The Company has undertaken that so long as any of the 35,000 Preferred Shares of the 5½% Series now offered are outstanding, such dividends as are declared on such Shares will be payable at par at any branch in Canada (Yukon Territory and Goldfields, Saskatchewan, excepted) of a chartered bank from time to time selected by the directors of the Company.

Provisions Affecting Payment of Dividends

As set out under the caption "Conditions Attaching to the Preferred and Common Shares" appearing herein, so long as there are any Preferred Shares outstanding, dividends shall not be declared or paid upon the common shares unless all cumulative dividends upon the Preferred Shares in respect of all previous quarters and in respect of the then current quarter shall have been or shall be paid or declared and set apart and the credit remaining to surplus available for dividends after payment of dividends on the common shares would be at least equal to one year's dividend requirements on all the Preferred Shares then outstanding.

In the Trust Indenture between the Company and Montreal Trust Company dated June 1, 1938, in respect to its Serial and Sinking Fund Debentures which mature to and including June 1, 1949, the Company agreed not to pay, so long as any of such Debentures are outstanding, any dividends (other than dividends paid in stock of the Company) in any quarterly period on any shares of the capital stock to an amount exceeding the "Net Available for Dividends" (as defined in the Trust Indenture) applicable to such quarterly period. In general the amount of the "Net Available for Dividends" applicable to any quarterly period shall be a sum equal to one-quarter of the difference between the amount of the Company's "Available Income" (as defined in the Trust Indenture) for a period of twelve calendar months (ending not more than four calendar months prior to the beginning of such quarterly period) and the sum of the following amounts, namely:—(a) the amounts provided by the Company for income and profits taxes in respect of such twelve months period and (b) the

(Continued on Page 2)

Transfer Agent—National Trust Company, Limited, Montreal and Toronto
Registrar —The Royal Trust Company, Montreal and Toronto

These 35,000 Preferred Shares of the 5½% Series are offered if, as and when issued by Gatineau Power Company, subject to the approval of all legal matters on behalf of the Company by Messrs. Montgomery, McMichael, Common & Howard, Montreal, and on behalf of the Underwriters by Messrs. Meredith, Holden, Heward & Holden, Montreal.

PRICE: \$97 per share

It is expected that Definitive Share Certificates will be ready for delivery on or about April 27, 1939, in Montreal and Toronto. Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close subscription books at any time without notice.

McLEOD, YOUNG, WEIR & Co.

LIMITED

Metropolitan Building, Toronto

Telephone: ELgin 0161

Montreal
Harbour 4261

Ottawa
2-1777

London
Metcalfe 1465

Hamilton
7-1919

The statements contained herein are based upon information which we believe to be reliable, but are in no event to be construed as representations by us.
April 24, 1939.

Printed in Canada

Gatineau Power Company has filed with the Securities and Exchange Commission, Washington, D.C., a Registration Statement and Prospectus under the Federal (United States of America) Securities Act of 1933, as amended, with respect to the offer and sale of \$62,500,000 principal amount of First Mortgage Bonds 3¾% Series A and Series B due 1969, which documents contain information not reproduced herein. A copy of such Prospectus is available on request to the Company. This circular is not, and under no circumstances is to be construed as, an offering of any of Series B Bonds for sale in the United States of America or the territories or the possessions thereof or an offering to any resident of the United States or a solicitation therein of an offer to buy any of Series B Bonds, such offering and solicitation being confined to the Prospectus in the form filed with the Securities and Exchange Commission.

NEW ISSUE

\$10,000,000

Gatineau Power Company

(Incorporated under the laws of the Province of Quebec)

First Mortgage Bonds 3¾% Series B due 1969

To be dated April 1, 1939

To be due April 1, 1969

Concurrently with this offering of \$10,000,000 First Mortgage Bonds 3¾% Series B due 1969, separate offerings are being made of \$52,500,000 First Mortgage Bonds 3¾% Series A due 1969 and 35,000 5½% Cumulative Preferred Shares of the par value of \$100 each, of Gatineau Power Company (herein referred to as the "Company"). In addition to these offerings the Company will borrow \$7,300,000 against a like principal amount of its Promissory Notes under a Bank Loan Agreement dated April 5, 1939. The Series A Bonds and the Promissory Notes will be payable in lawful money of the United States of America. The \$62,500,000 principal amount of Series A and Series B Bonds will be secured by and issued under the Trust Deed of Hypothec, Mortgage and Pledge executed by the Company in favor of The Royal Trust Company, as Trustee, under formal date of June 1, 1926, as supplemented by 19 Supplementary Trust Deeds and as to be further supplemented by Supplementary Trust Deeds dated as of April 20, 1939 (herein all collectively referred to as the "Indenture").

The Bonds of Series A and Series B will be of the same tenor except in respect of denominations, currencies in which and places where payable and certain tax withholding and reimbursement provisions applicable only to the Series A Bonds. Bonds of Series A and Bonds of Series B will not be interchangeable. Bonds of Series B are to be payable as to principal, semi-annual interest thereon (April 1 and October 1) and redemption premium, if any, in lawful money of the Dominion of Canada at the principal office of the Paying Agent of the Company in the Cities of Halifax, Montreal, Toronto, Winnipeg or Vancouver, at the option of the holder. Bonds of Series B will be issued in coupon form in the denominations of \$500 and \$1,000, registerable as to principal only, and in fully registered form without coupons in the denominations of \$1,000 or authorized multiples thereof; coupon bonds and fully registered bonds and the several denominations thereof will be interchangeable. Bonds of Series A and the Bonds of Series B, or either of them at the option of the Company, are to be redeemable in whole or in part at any time prior to maturity on thirty days' notice, at the option of the Company, or the Bonds of Series A and the Bonds of Series B, or either of them at the option of the Company, are redeemable for purposes of the sinking fund or other provisions of the Indenture at the following percentages of the principal amount thereof, together in each case with accrued interest to the date of redemption: (a) for the purposes of the sinking fund, at any time on or prior to March 31, 1950, 102½%; on April 1, 1950 and thereafter prior to April 1, 1960, 102%; on April 1, 1960 and thereafter prior to April 1, 1962, 101½%; on April 1, 1962 and thereafter prior to April 1, 1964, 101%; on April 1, 1964 and thereafter prior to April 1, 1965, 100½%; on April 1, 1965 and thereafter prior to April 1, 1967, 100¼%; on April 1, 1967 and thereafter to maturity, 100%; and (b) at the option of the Company or under any of the requirements of the Indenture other than the sinking fund provisions, at any time on or prior to March 31, 1944, 105%; on April 1, 1944 and thereafter prior to April 1, 1947, 104½%; on April 1, 1947 and thereafter prior to April 1, 1950, 104%; on April 1, 1950 and thereafter prior to April 1, 1953, 103½%; on April 1, 1953 and thereafter prior to April 1, 1956, 103%; on April 1, 1956 and thereafter prior to April 1, 1958, 102½%; on April 1, 1958 and thereafter prior to April 1, 1960, 102%; on April 1, 1960 and thereafter prior to April 1, 1962, 101½%; on April 1, 1962 and thereafter prior to April 1, 1964, 101%; on April 1, 1964 and thereafter prior to April 1, 1965, 100½%; on April 1, 1965 and thereafter prior to April 1, 1967, 100¼%; on April 1, 1967 and thereafter to maturity, 100%.

By reason of the Series A Bonds being payable only in lawful money of the United States of America and Series B Bonds being payable only in lawful money of the Dominion of Canada it follows that, in the event of any distribution of proceeds of the security, the relative amount of the claim of a holder of a Bond of Series A as compared with that of a holder of a Bond of Series B will necessarily depend on the rate of exchange at the time prevailing between the lawful money of the United States and that of Canada; accordingly, should the proceeds of a realization of the security be insufficient to pay in full the amount of the indebtedness of the Company in respect of the Bonds of both Series A and Series B and should there at the time be a difference in exchange between the lawful monies of the two countries, the holder of a Bond of the series payable in the money which is at a premium would receive sufficiently more of the proceeds to provide for payment to such holder of the same amount in the money in which his Bond is payable as the holder of a Bond of the other series would receive in the money in which his Bond is payable.

In the opinion of counsel for the Underwriters the Bonds of Series A and Series B will be a legal investment for Insurance Companies registered under the Canadian and British Insurance Companies Act 1932 (Dominion), as amended.

SINKING FUND

The Company will covenant in the Indenture to pay to the Trustee as a sinking fund for the benefit of the Bonds of Series A and the Bonds of Series B or either of them at the option of the Company on or before April 1 of each year, beginning April 1, 1945, an amount sufficient to redeem the following principal amounts of the Bonds of Series A and/or the Bonds of Series B: From 1945 to 1949, both inclusive, \$315,000; from 1950 to 1954, both inclusive, \$625,000; from 1955 to 1959, both inclusive, \$850,000; from 1960 to 1964 both inclusive, \$315,000.

(Continued on Page 2)

Bonds of this issue are offered if, as and when issued by Gatineau Power Company and accepted by us subject to the approval of all legal matters on behalf of the Company by Messrs. Montgomery, McMichael, Common & Howard, Montreal, and Messrs. Ropes, Gray, Boyden & Perkins, Boston, and on behalf of the Underwriters by Messrs. Meredith, Holden, Heward & Holden, Montreal, and Messrs. Milbank, Tweed & Hope, New York, except that all matters of Canadian law will be passed upon by one or more of the above named Canadian counsel and except that all legal matters pertaining to franchises, titles, conformity to local laws and the security created by the Indenture securing the Bonds offered hereby will be passed upon by Messrs. Montgomery, McMichael, Common & Howard who will rely upon opinions of local counsel for the Company with respect to matters pertaining to the law of the Province of New Brunswick and the State of Maine.

Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close subscription books at any time without notice.

PRICE: 98 and accrued interest, yielding over 3.85%

It is expected that Bonds of Series B in temporary form, exchangeable for definitive bonds when available, will be ready for delivery in Montreal and Toronto on or about April 27, 1939.

M^cLEOD, YOUNG, WEIR & Co.

LIMITED

Metropolitan Building, Toronto

Telephone: ELgin 0161

Montreal
Harbour 4261

Ottawa
2-1777

London
Metcal 1465

Hamilton
7-1919

The statements contained herein are based upon information which we believe to be reliable, but are in no event to be construed as representations by us.

April 24, 1939

Printed in Canada

inclusive, \$1,250,000; from 1965 to 1968, both inclusive, \$1,500,000; and on January 1, 1969, \$1,500,000 (such retirements would aggregate \$22,700,000 principal amount of Bonds). If Bonds of either of said Series in addition to the initial issues, aggregating \$62,500,000 shall be issued, the amount of each annual sinking fund payment thereafter shall be increased in an amount equal to the multiple of \$1,000 nearest to the amount bearing the same ratio to such payment as the principal amount of such additional Bonds bears to \$62,500,000. In lieu of the whole or any part of any sinking fund payment, the Company may deliver Bonds (theretofore issued by the Company) of either of said Series (cancelled or for cancellation but not Bonds theretofore retired through the sinking fund, refunded, delivered to the Trustee in lieu of cash or used as the basis of the withdrawal of cash or release of property), to be taken at their principal amount.

The following information is contained in a letter of G. Gordon Gale, Esq., President of Gatineau Power Company, on which we have relied in connection with this offering of First Mortgage Bonds 3¾% Series B due 1969.

HISTORY AND BUSINESS

Gatineau Power Company was incorporated by Letters Patent of the Province of Quebec, Canada, on March 11, 1926. The Company and its subsidiaries collectively but not all individually are engaged primarily in the business of generating, transmitting, distributing and selling electricity in the Provinces of Quebec, Ontario and New Brunswick in the Dominion of Canada. Also, the Company sells steam to a single customer, the Company and a subsidiary sell electrical appliances at retail and one subsidiary owns and operates a small bus transportation system. The Company owns generating plants having 725,634 h.p. rated installed turbine capacity of which over 98% is hydro-electric. During 1938 the Company produced approximately 2,700,000 kilowatt hours of electricity. For the twelve months period ended December 31, 1938, over 99% of the total operating revenues of the Company and its subsidiaries consolidated was derived from electric operations.

The Company's largest customer is The Hydro-Electric Power Commission of Ontario, which purchases under contract 25 cycle power for use in its Niagara system and 60 cycle power for use in its Eastern Ontario system. The two principal contracts extend to 1970. Revenues received by the Company from the sale of power to the Commission amounted to over 39% of the total operating revenues of the Company and its subsidiaries consolidated for the twelve months ended December 31, 1938.

The Company also sells electricity under contracts, none of which expires before 1956, to Canadian International Paper Company, a subsidiary of International Paper and Power Company, for its Kipawa sulphite and Gatineau newsprint mills, both in the Province of Quebec. The Company and a subsidiary sell electricity to Canadian International Paper Company for its Hawkesbury sulphite mill, in the Province of Ontario. The Kipawa and Hawkesbury mills are engaged in manufacturing bleached sulphite pulp, used chiefly in the manufacture of rayon yarn, cellophane and allied products. In the Province of New Brunswick, the Company sells electricity and steam (and provides transmission facilities) under contracts extending to 1967 to New Brunswick International Paper Company, a subsidiary of Canadian International Paper Company, for use at its Dalhousie newsprint mill. Revenues received by the Company and subsidiaries from the sale of electricity and steam to Canadian International Paper Company and to New Brunswick International Paper Company, including payments for use of facilities provided by the Company amounted to over 35% of the total operating revenues of the Company and its subsidiaries consolidated for the twelve months ended December 31, 1938.

The Company also sells, under long term contracts, electricity at wholesale in the Province of Quebec to The Ottawa Electric Company which distributes electricity in the City of Ottawa, the City of Hull (where the Company also distributes electricity), and vicinity, and in the Province of New Brunswick to Fraser Companies, Limited, to the Towns of Dalhousie and Grand Falls and to the New Brunswick Electric Power Commission for distribution north of Grand Falls and east of Dalhousie. In the Hull, Quebec, district the Company sells electricity under contract to The E. B. Eddy Company, Limited (in which the Company has a substantial interest) and other industrial customers.

The three contracts with The Hydro-Electric Power Commission of Ontario and the contract with The Ottawa Electric Company stipulate that, if failure to deliver the full amount of power or electrical energy provided for under such contracts is due to causes within the Company's control (or, in the case of the two principal contracts with the Commission, within the control of Gatineau Transmission Company), the Company (in addition to suffering a reduction in the sums payable under such contracts by an amount having the same ratio to the sums payable as the diminution in the power or electrical energy bears to that required to be delivered) is obligated to pay as liquidated damages in the case of:—(a) the two principal contracts with the Commission, until October 1, 1943, a sum equal to 50%, and thereafter 100%, of the reduction so made in the sums payable by the Commission; (b) the third contract with the Commission, for a one hour interruption a sum equal to double the amount payable for power which should have been delivered during the interruption and for a longer interruption seven times the amount payable for power which should have been delivered during the interruption; and (c) The Ottawa Electric Company, a sum equal to 100% of the reduction so made in the sums payable by it. Such contracts (except the third contract with the Commission) state that deficiencies in stream flow are not deemed to be within the control of the Company.

The retail distribution business of the Company and its subsidiaries in 1938 accounted for approximately 11% of total operating revenues on a consolidated basis. About 93% of such retail revenues was derived from the Company's distributing operations in the Province of Quebec, where approximately 22,000 customers are served in an area of about 5,000 square miles extending eastward from Bryson and Campbell's Bay, principally along the north shore of the Ottawa River, to Rawdon and St. Lin, and in two other areas, one south of the Ottawa River and one south of the St. Lawrence River, in and about Vaudeuil and Cedars, and in and about Napierville. The latter two areas are supplied with electricity purchased from Montreal Light, Heat & Power Consolidated. The balance of the retail distribution business is derived from a subsidiary's operations in the Province of Ontario.

Only four of the Company's subsidiaries carry on active operations: Gatineau Electric Light Company, Limited, operating solely in the Province of Ontario, sells electricity (supplied entirely by the Company) at wholesale to two municipalities and to the Hawkesbury sulphite mill of Canadian International Paper Company for motive power, and at retail to approximately 1,500 customers in five other municipalities. Gatineau Transmission Company owns and operates approximately 55 circuit miles of high tension transmission lines located almost wholly in the Province of Quebec. The electricity supplied under the contracts with The Hydro-Electric Power Commission of Ontario is transmitted over five circuits which cross the boundary into Ontario. Saint John River Storage Company operates the Temiscouata storage dam located on the Madawaska River, in the Province of Quebec, used in the regulation of the Saint John River in connection with the operation of the Company's plant at Grand Falls, New Brunswick. Gatineau Bus Company, Limited, owns and operates motor buses in the Hull, Quebec, district.

OPERATING STATISTICS

The energy generated and purchased, sales of energy and operating revenues of the Company and its subsidiaries consolidated in each of the calendar years 1934 to 1938, inclusive, are shown by the following schedule:

Energy Generated and Purchased (Thousand kilowatt hours)

	1934	1935	1936	1937	1938
Total Generated and Purchased.....	2,765,215	2,852,718	2,771,311	3,032,675	2,702,441
Less: Company Use and Unaccounted for.....	63,416	64,970	62,277	78,478	61,782
Total Energy Available.....	<u>2,701,799</u>	<u>2,787,748</u>	<u>2,709,034</u>	<u>2,954,197</u>	<u>2,640,659</u>

Sales of Energy (Thousand kilowatt hours)

To The Hydro-Electric Power Commission of Ontario.....	1,385,804	1,361,314	873,403	897,337	1,019,933
To Other Electric Systems	72,755	73,749	90,166	89,771	107,693
To Canadian International Paper Company and New Brunswick International Paper Company	1,106,797	1,213,189	1,590,154	1,790,236	1,349,438
To Other Power Customers	101,369	102,755	116,058	156,715	142,100
Domestic, Commercial and Other Sales.....	*35,074	*36,741	*39,253	20,138	21,495
Total Sales of Energy.....	<u>2,701,799</u>	<u>2,787,748</u>	<u>2,709,034</u>	<u>2,954,197</u>	<u>2,640,659</u>

*Includes certain small power customers 1934-36.

Operating Revenues

From The Hydro-Electric Power Commission of Ontario....	\$4,656,061	\$4,555,276	\$3,055,132	\$3,095,266	\$3,438,439
From Other Electric Systems.....	436,320	446,613	483,684	523,737	580,945
From Canadian International Paper Company and New Brunswick International Paper Company.....	2,755,775	2,847,511	3,131,984	3,384,835	3,075,138
From Other Power Customers	692,257	677,626	703,067	804,042	756,580
Domestic, Commercial and Other Sales.....	649,136	658,384	687,008	727,680	776,004
Transportation Revenue (Gatineau Bus Company, Limited, was acquired as of September 1, 1937).....	—	—	—	19,367	56,610
Total Operating Revenues.....	<u>\$9,189,549</u>	<u>\$9,185,410</u>	<u>\$8,060,875</u>	<u>\$8,554,927</u>	<u>\$8,683,716</u>

POWER CONTRACTS WITH THE HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO

Since 1930, a substantial part of the Company's output has been taken by The Hydro-Electric Power Commission of Ontario under contracts, the two largest of which were entered into in 1926 and 1927, respectively. After entering into these contracts with the Company, the Commission had (in 1929 and 1930) made contracts for the purchase of increasing amounts of power from various other Quebec companies so that prior to 1935 it found itself obligated to take power substantially in excess of the requirements of the municipalities and other customers it served. Relief from the situation so confronting the Commission was sought by questioning the validity of all of the contracts and in 1935 the two largest contracts with the Company, together with substantially all the power contracts which the Commission then had with other Quebec electric companies, were by Act of the Ontario Legislature declared "illegal, void and unenforceable" as against the Commission. The Company did not litigate its claims based on this action but, under date of February 8, 1936, together with its subsidiary, Gatineau Transmission Company, entered into agreements with the Commission, under which the Commission purchased during the period from November 1, 1935 to December 1, 1937 substantially smaller quantities of electricity than those called for under the earlier contracts of 1926 and 1927. The net price for power under the 1926 and 1927 contracts averaged a little under \$14.75 a horsepower year. The prices under the agreements of February 8, 1936, were fixed at \$12.50 a horsepower year for Contract Demand, \$10.00 a horsepower year for Immediate Standby and \$1.75 a horsepower year for General Reserve.

The validity of the above mentioned Act was, however, successfully contested in the courts by certain of the other companies, the judgment being confirmed by the Appellate Court of Ontario. Prior to the hearing of the Commission's appeal to the Judicial Committee of the Privy Council a compromise was effected with all of the Quebec companies. In the case of the Company this compromise took the form of two agreements, dated December 14, 1937, and effective as of December 1, 1937, between the Company, Gatineau Transmission Company and the Commission, under which the respective claims of the Commission and the Company arising prior to December 1, 1937, under the 1926 and 1927 contracts were mutually released, the agreements dated February 8, 1936 were supplanted and the contracts of 1926 and 1927 were varied by the substitution, with certain changes, of the clauses of the 1936 agreements, and their respective terms were extended to 1970. The amount of Contract Demand was increased annually, until by November 1, 1939 the Commission is required to pay for the full 320,000 h.p. covered by the 1926 and 1927 contracts at \$12.50 per horsepower year. By an Act entitled "The Power Contracts Validating Act, 1938" (2 George VI, Chapter 27), the agreements of December 14, 1937 and the contracts of 1926 and 1927, as varied by such agreements, were ratified, confirmed and declared valid by the Legislature of the Province of Ontario. The Company is in a position to meet the increase in the power requirements under the revised contracts with the Commission, without further additions to its generating plants, by withdrawal from other customers of power now utilized for steam generation.

Under an agreement dated December 8, 1913, which expires in January 1947, between The Hydro-Electric Power Commission of Ontario and a predecessor company, the Company agrees to hold in reserve for delivery to the Commission 20,000 h.p. of 60 cycle power. The Commission agrees to pay at the rate of \$11.00 per h.p. per year on the monthly demand and is liable to pay for three-fourths of the power held in reserve for it whether it takes the same or not.

PROPERTY

The principal properties of the Company and its subsidiaries are located in the Provinces of Quebec and New Brunswick, in the Dominion of Canada.

With the exception of the Grand Falls hydro-electric plant and the Dalhousie steam plant, located in the Province of New Brunswick, all of the Company's electric generating stations are located in the Province of Quebec and all except the Dalhousie plant are hydro-electric. The properties of the Company and its subsidiaries include an interconnected 25 cycle system, an interconnected 60 cycle system, the New Brunswick system, two small distribution systems south and west of Montreal, and the Kipawa plant and one small plant which are isolated.

The interconnected 25 cycle system supplies power to The Hydro-Electric Power Commission of Ontario and surplus electricity from this system is sold to Canadian International Paper Company for use at its Gatineau newsprint mill. The Pagan plant, and portions of the Chelsea and Farmers plants, all located on the Gatineau River, generate the electricity for this system.

The interconnected 60 cycle system supplies power to The Hydro-Electric Power Commission of Ontario, to The Ottawa Electric Company and to Canadian International Paper Company for motive power at its Gatineau newsprint and Hawkesbury sulphite mills, as well as surplus electricity for use at such mills, and power for retail distribution. This power is provided principally by the Chelsea and Farmers plants on the Gatineau River, and by the Bryson and the two Chaudiere plants on the Ottawa River. The balance of the capacity of this system is accounted for by eight other smaller hydro-electric plants.

The Kipawa plant at Temiskaming supplies electricity to the Kipawa sulphite mill of Canadian International Paper Company. The Grand Falls hydro-electric plant on the Saint John River and the Dalhousie steam-electric plant supply all the electricity and steam sold by the Company in the Province of New Brunswick.

The following schedule lists the generating plants of the Company, their location and rated installed waterwheel capacity as well as the approximate dates of installation of the principal units:

Name of Development	Location	Rated Installed Waterwheel Capacity (Horse Power)		Approximate Dates of Installation
		25 cycle	60 cycle	
Hydro-Electric Plants				
Paugan.....	Gatineau River, Que.....	238,000	—	1928-1931
Chelsea.....	Gatineau River, Que.....	34,000	136,000	1927-1939
Farmers.....	Gatineau River, Que.....	24,000	72,000	1927-1929
Corbeau Rapids.....	Gatineau River, Que.....	—	2,500	1926
Bryson.....	Ottawa River, Que.....	—	51,400	1925-1929
Chaudiere No. 2.....	Ottawa River, Que.....	—	22,500	1920-1923
Chaudiere No. 1.....	Ottawa River, Que.....	—	14,100	1902-1909
Kipawa.....	Gordon Creek, Que.....	—	27,550	1919-1926
Bell Falls.....	Rouge River, Que.....	—	7,200	1915-1920
Rawdon.....	Ouareau River, Que.....	—	2,300	1927
6 Other Plants.....	Petite Blanche, Blanche, Petite Nation and North Rivers, Que....	—	5,084	1913-1926
Grand Falls.....	Saint John River, N.B.....	—	80,000	1928-1930
Total Hydro-Electric Plants.....		296,000	420,634	
Steam-Electric Plant				
Dalhousie.....	Dalhousie, N.B. (Rated installed steam turbine capacity).....	—	9,000	1930
Total All Plants.....		296,000	429,634	

Except as hereafter noted under this caption "Property," all of the above plants are located on land which, in the opinion of counsel for the Company, is owned in fee (the term "fee" has no defined significance in Quebec property law, but is used herein for convenience as being substantially synonymous with *droit de propriété* representing complete ownership), and rights to flow land not owned in fee are constituted by statute or by servitudes or easements. Flowage rights of the Company are deemed adequate by it for the operation of its plants.

Some of the flowage rights upstream from the Pagan plant are held by the Company under two emphyteutic leases dated respectively August 8, 1922 and April 9, 1929, from the Government of the Province of Quebec which, by Deed dated August 5, 1926, extended to 1997 the term of the 1922 lease. The term of the 1929 lease also extends to 1997. The flowage rights acquired by the Company under the 1929 lease were acquired in connection with the raising of the head at the Pagan plant 20 feet above that contemplated by the original plans. The conditions of both these leases are similar and among others require the Company to pay a fixed annual rental and an annual royalty based on installed capacity. The royalty may be revised by the Government at the end of each ten-year period. The leases may not be transferred without authorization of the Lieutenant-Governor in Council.

The bed of the creek under the Kipawa dam is held by the Company under an emphyteutic lease from the Government of the Province of Quebec expiring in 1993. The lease also gives the Company the right to store water in Gordon Creek from the dam site upstream to Lake Kipawa and the right to control the operation of the storage dams on Lake Kipawa subject to the Government's requirements. The lease requires the Company to pay a fixed annual rental and an annual royalty based on installed capacity. The royalty may be changed by the Government at the end of each twenty-one year period from the commencement of operation to accord with governmental policy at the time. The lease may not be transferred without consent of the Lieutenant-Governor in Council.

Such rights as the Government of the Province of Quebec may have to the bed of the river at the Rawdon plant are held by the Company under an emphyteutic lease expiring in 2003 which requires the Company to pay a fixed annual rental. The Company does not consider this lease material to the total enterprise represented by the Company and its subsidiaries.

The Company also holds a lease (not emphyteutic) from the Government of the Province of Quebec, expiring in 1988 of seven islands in the Ottawa River, one of which islands may be located under part of the dam of the Bryson plant, and the other six of which, located upstream from the dam, are flooded. The lease requires the Company to pay a fixed annual rental. In addition to the usual provisions for cancellation upon default, the lease may be cancelled by Order-in-Council upon thirty days' notice in writing should the islands be required for public purposes or be occupied for other than the development of water power. Upon cancellation the Company may be obliged to remove any of its works on the islands. The lease may not be transferred without consent of the Lieutenant-Governor in Council.

The waters of the Gatineau River are regulated by The Quebec Streams Commission through operation of the Baskatong and Cabonga storage reservoirs, which have utilizable capacities of about 95,000,000,000 cubic feet and 45,000,000,000 cubic feet, respectively. The cost of developing these reservoirs was paid by the Company, but upon completion, they became the property of the Province of Quebec which, in contracts between it and the Company, agreed to cause The Quebec Streams Commission to operate and maintain them in such manner as to regulate so far as possible the flow of the Gatineau River at Chelsea to the best advantage of the power owners on such river.

The Temiscouata storage reservoir operated by Saint John River Storage Company has a utilizable capacity of about 4,000,000,000 cubic feet and is used in the regulation of the Saint John River in connection with the operation of the Company's hydro-electric plant at Grand Falls, New Brunswick.

The Company and its subsidiaries own and operate approximately 350 circuit miles of steel tower and 652 circuit miles of wood pole transmission and distribution lines of 10 kv. and higher voltages, and in addition the Company and its subsidiaries have lower voltage distribution lines aggregating approximately 950 pole miles. The five principal substations of the Company and its subsidiaries have an aggregate rated capacity of 167,000 kv-a.

MANAGEMENT AND CONTROL

The names and addresses of the present directors of the Company are as follows:

G. Gordon Gale, Ottawa, Ont., President; Irwin L. Moore, New York, N.Y., Vice-President; A. C. Brittain, Ottawa, Ont., Treasurer; John R. Binks, Ottawa, Ont., Secretary; Victor M. Drury, Montreal, Que., W. Fraser Hadley, Hull, Que., Louis S. St. Laurent, K.C., Quebec, Que., and C. N. Simpson, Ottawa, Ont.

As at February 15, 1939, International Hydro-Electric System owned 1,439,024½ Common Shares (including directors' qualifying shares), constituting 87.90% of the voting power of the Company. As of that date there were 84,945 Common Shares of the Company being held for issuance upon the exercise of outstanding Stock Subscription Warrants, none of which was held by International Hydro-Electric System.

The Company is informed that, prior to January 31, 1939, International Paper and Power Company held voting control of International Hydro-Electric System, but that on that date, International Paper and Power Company and its subsidiary, International Paper Company, transferred the shares constituting voting control of International Hydro-Electric System to three Trustees under a Trust Agreement dated January 31, 1939, which Agreement continues until December 31, 1943. The Trust Agreement and a Liquidating Plan submitted to the Securities and Exchange Commission provide for the sale or other disposition of such shares only to others than International Paper and Power Company and International Paper Company and their subsidiaries. Pending such sale or distribution, the Trustees hold all rights, powers and privileges of ownership of such shares including the right to vote. By reason of the facts set forth above the Company disclaims any admission of the actual existence of effective control of it by International Paper and Power Company.

PROVINCIAL ELECTRICITY BOARD

The Provincial Electricity Board of the Province of Quebec has general and complete power, supervision and control over companies and others producing, selling or distributing electricity in the Province of Quebec. The powers of the Board include the licensing of distributors, authorization of the issue of securities, fixing of prices to be charged for electricity to make them conform to the requirements of the Act (Statutes of Quebec, 1 George VI, Ch. 25), and, at the request of any interested party, cancellation or alteration of any contract for the sale of electricity existing on September 1, 1937, if such party establishes that the conditions of such contract are abusive. The decision of the Board in any matter within its jurisdiction is final and without appeal. Infringement of the provisions of the Act or an order of the Board made thereunder renders a distributor liable to cancellation of its license or to a fine not exceeding \$20,000. The Board has issued to the Company and to Gatineau Transmission Company, as distributors operating in the Province of Quebec, licenses expiring December 31, 1939, similar to those which it has issued to other distributors. The policy of the Board with respect to the issue, renewal or extension of licenses has not been announced.

The issuance of the First Mortgage Bonds 3¾% Series A and Series B due 1969 and the herein mentioned 5½% Cumulative Preferred Shares and Promissory Notes has been authorized by an order of the Provincial Electricity Board of the Province of Quebec.

MISCELLANEOUS INFORMATION

The St. Lawrence Deep Waterway Treaty between the United States of America and the Dominion of Canada, signed on July 18, 1932, but to date not ratified by either government, in part contemplates the development of hydro-electric power on the St. Lawrence River at the International Rapids Section on the Ontario-New York boundary. On May 31, 1938 the Department of State of the United States made public a note, dated May 28, 1938 and addressed to the Minister for Canada, transmitting a draft for a comprehensive treaty which provides for the planned use of the Great Lakes-St. Lawrence Basin, including the development of hydro-electric power. The draft contains certain features purporting to facilitate participation in the plan by Canada. No further action on this matter has been announced by either the United States or Canada. The Company is unable to state to what extent, if any, its business might be affected by such a development.

The "Act to Authorize all Municipal Corporations to Municipalize Electricity" (Statutes of Quebec, 1 George VI, Ch. 26) authorizes municipal corporations to establish and maintain electricity generating and distributing services for lighting, heating and power purposes within the municipality and to acquire by agreement or expropriation, whether within or without the municipality, all necessary property, including any system for the production or distribution of electricity. The Company is not aware of any municipal corporation in the territory served by it proposing to avail itself of this Act.

The "Act to Establish and Assure State Competition Respecting Hydro-Electric Resources" (Statutes of Quebec, 1 George VI, Ch. 24) created a corporation named "The National Electricity Syndicate" and declared it to be the mandatary of the Province with power to establish electricity generating plants and electricity transmission and distributing systems in designated electoral districts in the Province. The Syndicate may be authorized to establish, outside of such districts, other electricity generating plants and distributing systems. The Syndicate may acquire by agreement or by expropriation property necessary for its purposes, including any electricity generating or distributing system. The Provincial Treasurer may place at the disposition of the Syndicate the sums necessary for its purposes and in certain cases shares may be sold by the Syndicate, in which event 60% shall be purchased by the Province. The Company's Kipawa plant is located in one of the designated electoral districts in which district, it was announced, the Syndicate will construct approximately 75 miles northeast of such plant a hydro-electric generating plant with an estimated initial capacity of 26,000 h.p. The territory in which, according to such announcement, the Syndicate will distribute electricity so generated, is not served by the Company.

SECURITY

In the opinion of counsel for the Company, the Indenture, under which the First Mortgage Bonds 3¾% Series A and Series B due 1969 will be issued, when duly registered, will constitute:

1. as to properties and rights in the Province of Quebec, Canada, a valid first (except for Permitted Charges as defined in the Indenture) fixed and specific hypothec, mortgage, pledge and charge and cession and transfer on and of, and as to properties and rights outside of the Province of Quebec a valid first (except for said Permitted Charges) fixed and specific mortgage and also, as to properties in the Province of New Brunswick, charge on, (a) all the Company's hydro-electric generating plants and flowage rights pertaining thereto (subject, in the case of part of the dam at Bryson and certain of the flowage rights pertaining to the Bryson and Pagan plants, to the qualifications hereafter mentioned under this caption "Security"), the Company's steam-electric plant, transmission lines and principal sub-stations; (b) all fixed machinery, plant equipment and other appliances and fixtures of every kind of the Company on or used in connection with the properties described in the preceding clause (a); (c) all the right, title and interest of the Company in and to other real and immoveable properties, including distribution lines, local distribution sub-stations and surplus lands acquired in connection with the acquisition of flowage rights but excluding certain properties heretofore (and in and by the Supplementary Trust Deed to be dated as of April 20, 1939) released from the specific charge and lien of the Indenture and certain properties held under lease, none of which properties so excluded is used in the Company's present Electric Business; and (d) all outstanding shares, except directors' qualifying shares, of the capital stock of Gatineau Transmission Company and Saint John River Storage Company;

2. as to properties and rights in the Provinces of Quebec and New Brunswick, Canada, a valid floating charge on all the other assets of the Company, both present and future, of whatsoever kind and wheresoever situate, except certain properties held under lease, none of which is used in the Company's present Electric Business.

The qualifications referred to in clause 1 (a) under this caption "Security" do not involve any question of the Company's rights of use and enjoyment of the Pagan and Bryson plants and flowage rights pertaining thereto but result from questions as to the ability of the Company to give to the Trustee under the Indenture similar security to that given upon the other property mentioned in said clause 1 (a) in respect of such of the flowage rights upstream from the Pagan plant as are covered by the emphyteutic lease from the Government of the Province of Quebec dated April 9, 1929, and in respect of part of the dam at the Bryson plant and certain flowage rights pertaining thereto. Counsel express inability to advise with any measure of assurance that the authorization given by the Lieutenant-Governor in Council in 1926, to the transfer to the Trustee under the Indenture of the earlier Pagan emphyteutic lease dated August 8, 1922, covers the cession and transfer to the Trustee of the above-mentioned later lease dated April 9, 1929, which is, by its terms, supplementary to said earlier lease. In the opinion of counsel for the Company, said Indenture, when duly registered, will, however, constitute as to the flowage rights covered by such later lease a first fixed and specific hypothec thereon to the extent of the Company's title thereto as emphyteutic lessee.

Under the laws of the Province of Quebec, a hypothec is a real right in virtue of which the creditor in whose favor it exists may cause the real or immovable property (which would include such last mentioned flowage rights) which is subject to it to be sold by judicial process in the hands of whomsoever may possess it and have a preference upon the proceeds of the sale. In the case of a first hypothec, such preference in respect of said proceeds is subordinated only to special privileged claims thereon, such as legal costs and taxes.

Since the lease from the Government of the Province of Quebec of seven islands in the Ottawa River (one of which islands may be located under part of the dam of the Bryson plant and the other six of which, located upstream from the dam, are flooded) cannot now be ceded or transferred to the Trustee and since the leasehold interest of the Company in the said islands (not being emphyteutic) cannot be hypothecated, the opinion of counsel as to the security constituted by the Indenture as to said plant and flowage rights pertaining thereto discloses the omission from such security of the Company's rights under said lease. Subject to this, such opinion is to the effect that the Indenture when duly registered will constitute as to said plant and the flowage rights pertaining thereto a valid first (except for Permitted Charges) fixed and specific hypothec, mortgage, pledge and charge and cession and transfer thereon and thereof.

No authorization of the Lieutenant-Governor in Council of the Province of Quebec has been obtained to the hypothecation, mortgaging, cession and transfer of the emphyteutic lease from the Government of the Province of Quebec held by the Company relating to the bed of the river at the Rawdon plant since, in the opinion of counsel of the Company, such lease is not requisite to the validity of the Company's title to that part of the bed of the river covered thereby.

An examination has not been made of the titles to certain properties referred to under clause 1 (c) above of this caption "Security". No warranty of good and marketable title will be made with respect to any properties referred to in said clause.

By a Supplementary Trust Deed dated as of April 11, 1939, the Company assigned to the Trustee a promissory note of Gatineau Transmission Company, in the principal amount of \$950,000 and a promissory note of Saint John River Storage Company in the principal amount of \$450,000, both dated April 20, 1939 payable to the Company on demand and bearing interest payable monthly at the rate of 6% per annum; and by the Indenture the Company will covenant that, if it shall, after April 20, 1939, acquire any indebtedness (other than current open account indebtedness) of a Pledged Subsidiary, it will assign such indebtedness to the Trustee. The Indenture will also provide for pledging with the Trustee at the option of the Company other stock, obligations or evidences of indebtedness but not (except with respect to Pledged Subsidiary Bonds) for the issue of additional Bonds, withdrawal of cash or the release of property on the basis thereof. So long as the security of the Indenture has not become enforceable, the Company will be entitled to receive (1), in the case of any Pledged Subsidiary, all payments on account of principal, interest and dividends on securities held by the Trustee (except stock dividends and capital distributions and except payments on account of principal of Pledged Subsidiary Bonds), but only to the extent that such payments are made out of earnings (computed without allowance for depreciation, obsolescence or amortization) accruing, in the case of Gatineau Transmission Company and Saint John River Storage Company, subsequent to January 1, 1939, and, in the case of any future Pledged Subsidiary, subsequent to the date on which it became a Pledged Subsidiary; and (2) in all other cases, all payments on account of interest and dividends on securities held by the Trustee (except stock dividends and capital distributions), but in the case of a Subsidiary other than a Pledged Subsidiary, only to the extent that such payments are made out of net earnings available for dividends accruing subsequent to the date on which such securities were first pledged with the Trustee. A "Pledged Subsidiary" is a subsidiary all the stock of which (except directors' qualifying shares) is owned by the Company and pledged with the Trustee.

The Indenture will also contain an "after-acquired property clause" purporting to subject to the specific charge and lien of the Indenture all real and immovable property and rights acquired by the Company after April 11, 1939. The Company will covenant to give full effect to this clause by the execution and registration from time to time of the appropriate Supplementary Trust Deeds.

The specific charge and lien of the Indenture will, subject to the qualifications referred to in clause 1 (a) under this caption "Security", cover all of the plants and other important units, briefly described under the caption "Property" (to which reference is hereby made for such description), except the Baskatong and Cabonga storage works, the transmission lines owned by Gatineau Transmission Company, the substations and distribution lines owned by Gatineau Electric Light Company, Limited, and the properties included in the Temiscouata storage works operated by Saint John River Storage Company.

The consent and authorization of the Lieutenant-Governor in Council of the Province of Quebec, in 1926, to the hypothecation, mortgaging, cession and transfer to the Trustee of the emphyteutic leases from the Government of the Province of Quebec held by the Company described herein under the caption "Property" (with the exceptions set forth under this caption "Security") stipulated that, should the Trustee sell or otherwise alienate said leases pursuant to the powers of sale conferred upon it by the Original Trust Deed, such authorization and consent was not to prejudice the right of said Government to exact any transfer fees which might be exigible at that time on such change of ownership. In the opinion of counsel for the Company, no further consent or authorization of said Lieutenant-Governor in Council would be needed in respect of such change of ownership of such leases.

In the opinion of counsel for the Company the First Mortgage Bonds 3¾% Series A and Series B, upon provision for redemption of the outstanding First Mortgage Gold Bonds 5% Series Due 1956 (which provision is to be made prior to or concurrently with the issue of the Bonds offered hereby as set forth under the caption "Purpose of Issue") and upon the registration of the Supplementary Trust Deeds dated as of April 11, 1939 and the execution of the Supplementary Trust Deeds to be dated as of April 20, 1939 will be secured, as described above under this caption "Security", by the properties, rights and shares listed in clauses 1 (a), (b), (c) and (d) hereof, subject to no prior liens or encumbrances securing existing indebtedness, except: (a) a vendor's privilege (purchase money mortgage) securing the sum of \$185,277.85 owing to the municipality of the Town of St. Jerome, Province of Quebec, and being the balance remaining of a larger sum assumed by the Company under the terms of a deed of sale to it from Laurentian Hydro-Electric, Limited, executed in 1927, and which vendor's privilege affects a small hydro-electric generating plant, distribution system and appurtenances located in the Town of St. Jerome; and (b) privileges or liens for current municipal taxes and assessments not yet due and for taxes and assessments already due, but whose validity is being contested by the Company in good faith. As regards the promissory notes assigned to the Trustee as set forth under this caption "Security" there will be, in the opinion of counsel for the Company, no prior lien or charge thereon.

COVENANT OF THE INDENTURE WITH RESPECT TO CERTAIN CONTRACTS

The Indenture will contain a covenant by the Company that it will not (except as set forth in this paragraph) dispose of or charge as security for indebtedness or terminate or amend any of the following contracts: the 220 kv. 25 cycle and the 110 kv. 60 cycle contracts with The Hydro-Electric Power Commission of Ontario (referred to herein under the caption "Power Contracts with The Hydro-Electric Power Commission of Ontario"); the three contracts with Canadian International Paper Company, one relating to motive power for its Gatineau mill and the other two relating to motive power and steam generation, respectively, at its Kipawa mill, and the three contracts with the New Brunswick International Paper Company for primary power, secondary power and use of transmission facilities (all of which are referred to herein under the caption "History and Business"). The Indenture will provide that the Company may, with the written consent of the Trustee, modify or amend any or all of such contracts or settle claims thereunder or substitute any contracts therefor, provided that no such consent shall be required for modifications or amendments of an administrative nature.

SUBSTITUTION AND RELEASE

In addition to provisions for changes in franchises, leases, rights of way, locations, easements, permits, and similar rights (other than its principal franchises, leases, or similar rights) made in the ordinary conduct of its business, and for the abandonment, discontinuance, disposal and release of property no longer required or that has become obsolete or worn out, and for the application of insurance moneys and similar provisions, the Indenture will provide in substance that so long as the Company is not in default and upon the filing with the Trustee of certain specified certificates (and, during the continuance of default, with the written consent of the Trustee): (a) The Company may surrender, terminate or modify any of its principal or general franchises, leases, or other similar rights, if in the opinion of the Company's Board of Directors it is in the interest of the Company and the Bondholders to do so, and in the opinion of counsel such franchises, leases or other rights are no longer necessary, or the Company will have other adequate franchises or rights for the conduct of its Electric Business, and in the opinion of an Engineer the proposed action is in the interest of the Company and the Bondholders and will not substantially diminish the value of the Specifically Mortgaged Property or substantially impair its operating efficiency; (b) The Company may secure the release of any part of the Specifically Mortgaged Property (including securities but, in the case of securities of a Subsidiary, only if all securities of such Subsidiary at the time held by the Trustee are simultaneously released), the retention of which is in the opinion of the Board of Directors no longer advantageous for or in connection with the operation of the business, (i) if

the Company has sold or contracted to sell such property for its Fair Value in cash, purchase money obligations not exceeding 70% of the Fair Value of the property disposed of, and/or Additional Property then being acquired and certified to the Trustee; or (ii) if the Company has substituted with the Trustee the Fair Value of such property in money, purchase money obligations, and/or Additional Property as aforesaid; or (iii) if the Net Amount of Additional Property (at the time available for the issue of Bonds), together with any money, purchase money obligations and/or Additional Property as aforesaid, substituted as set forth in (ii) next above, is at least equal to the Fair Value of the property to be released (the effect of the release of property on the basis of such Net Amount of Additional Property being to prevent the subsequent use thereof as a basis for the issue of Bonds, the withdrawal of cash, or the release of property); (c) The Company may procure the release of certain real estate acquired in connection with the acquisition of property for flowage purposes or development or distribution of power and not necessary in the Company's Electric Business, either (i) if sold, upon delivery to the Trustee of the net proceeds of the sale of such property, or (ii) upon deposit with the Trustee of money equal to the Fair Value of the property so to be released; provided the aggregate Fair Value of all property so released as referred to in this clause (c) shall not exceed \$250,000 in any period of five consecutive years; (d) The Company may, without compliance with any specified conditions, procure the release of such property as may be required by any public railway company for its right-of-way, or by the Dominion of Canada or any province or subdivision thereof, or municipality, for highways or roads; (e) In the event any of the Specifically Mortgaged Property is taken by expropriation or exercise of the right of eminent domain, or similar power, or is sold in anticipation of such taking, the Trustee is required to release the same upon receipt of (i) the proceeds of such taking or sale if the Fair Value of the property released is less than \$100,000 or if the price is determined by public authority, or (ii) if the Fair Value of the property released exceeds \$100,000 and the price is determined otherwise than by public authority, the proceeds or the Fair Value of the property released, whichever is the greater, and in either case any amount received for resultant damage to any of the Specifically Mortgaged Property not so taken is required to be paid to the Trustee. In the event that the Company's principal interconnected system (consisting of its Pagan, Chelsea, Farmers, Bryson and Chaudiere generating plants and the high tension transmission lines connecting the same), or the greater part thereof, is so taken or sold the proceeds thereof shall forthwith be applied by the Trustee to the purchase or redemption of Bonds in the manner prescribed in the Indenture; (f) The Company may procure the release of any "Undeveloped Water Power" property not required for or in connection with the operation of the remaining Specifically Mortgaged Property, for transfer to a "Development Subsidiary", of which all the outstanding stock or shares (except directors' qualifying shares) having rights unlimited in amount as to dividends and on liquidation, and stock or shares representing under all circumstances and on all contingencies the voting control, shall at the time be owned by the Company and pledged with the Trustee.

Except to the extent that substitution therefor is made, and subject to provisions relating to the application of certain insurance moneys, all release moneys for and proceeds of Specifically Mortgaged Property are required to be paid over to the Trustee; and, except as set forth in clause (e) in the preceding paragraph, any such release moneys and such cash proceeds from time to time held by the Trustee may be withdrawn by the Company within five years after the receipt thereof by the Trustee on the basis of the Net Amount of Additional Property certified to the Trustee, or on the basis of Bonds at any time theretofore outstanding delivered to the Trustee cancelled or for cancellation, and not theretofore retired through the sinking fund, refunded, delivered to the Trustee in lieu of cash, or used as the basis of the withdrawal of cash or release of property. Release moneys for, and proceeds of, property (other than securities of a Pledged Subsidiary or a Development Subsidiary) not of the character of Additional Property may be so withdrawn for the purchase of other property, whether or not of such character. If not so withdrawn within such five-year period, any such money shall be applied to the purchase or redemption of Bonds, in the manner prescribed.

In lieu of cash, under any of the foregoing release provisions, the Company may deliver to the Trustee cancelled or for cancellation, Bonds at any time theretofore outstanding under the Indenture which have not theretofore been retired through the sinking fund, refunded, delivered to the Trustee in lieu of cash or used as the basis of the withdrawal of cash or release of property. Bonds so delivered shall be taken at the cost thereof to the Company but not exceeding the redemption price (other than for sinking fund purposes) applicable to such Bonds when acquired by the Company, exclusive of accrued interest in either case. Bonds so delivered shall be cremated and no other Bonds shall be issued in place thereof, or for the purpose of refunding the same.

The capital stock of any corporation any of whose shares are pledged with the Trustee may be increased or reduced or re-classified, provided that there shall continue to be held in pledge by the Trustee certificates for the same proportion of capital stock; and any obligations or indebtedness of any corporation which are pledged with the Trustee may be renewed or extended at maturity at the same or at a lower or higher rate of interest, and other obligations or indebtedness for equivalent amounts secured by a charge of substantially equal rank upon the same property may be substituted in place of the obligations and indebtedness so pledged; all upon the terms and conditions set forth in the Indenture.

No notice to Bondholders is necessary in connection with any such substitution or release.

ISSUE OF ADDITIONAL FIRST MORTGAGE BONDS

The Indenture will limit the aggregate principal amount of Bonds authorized to be issued thereunder to \$250,000,000, but will provide for increasing such limit by supplemental indenture if the Company desires to issue Bonds in excess of such limit or if at any time by reason of the rate of exchange the total obligation of the Company on outstanding Bonds, computed in terms of Canadian dollars, exceeds such limit. Within the above limits, so long as the Company is not in default, additional Bonds of any series may from time to time be issued on compliance with the provisions and conditions contained in the Indenture, to a principal amount not exceeding 70% of the Net Amount of Additional Property of the Company, or not exceeding 100% of the principal amount of Pledged Subsidiary Bonds deposited with the Trustee, but only in each case if the Consolidated Net Earnings of the Company and Pledged Subsidiaries on a consolidated basis for a period of twelve consecutive calendar months within the seventeen calendar months next preceding the application for authentication of such Bonds (after allowance for maintenance and repairs and taxes other than income taxes, but without allowance for interest charges, depreciation, retirements or amortization) is at least two and one-half times the annual interest charges on the Bonds and equal and prior obligations, if any, to be outstanding after such additional issue. Bonds may not be issued on the basis of Pledged Subsidiary Bonds if as a result the aggregate principal amount of Pledged Subsidiary Bonds upon the basis of which Bonds have been issued then held by the Trustee plus the amount of cash then on deposit in anticipation of the issue of Bonds on such basis would exceed 10% of the aggregate principal amount of all Bonds that would then be outstanding under the Indenture.

Additional Bonds of any series within the above limits may also be issued by the Company in anticipation of the acquisition or construction of Additional Property or the deposit of Pledged Subsidiary Bonds on like terms and conditions, upon deposit with the Trustee of cash in an amount equal to the principal amount of the Bonds so issued; and such cash may be repaid to the Company from time to time upon the basis of the Net Amount of Additional Property or of Pledged Subsidiary Bonds, in lieu of and in amount equal to the principal amount of, the Bonds which would be issuable on the basis thereof, but without compliance with any net earnings requirement.

Additional Bonds of any series within the above limits may also be issued so long as the Company is not in default, for the purpose of refunding or upon deposit of cash in anticipation of refunding, to the extent of an equal aggregate principal amount, Bonds theretofore outstanding under the said Indenture, without compliance with any net earnings requirement.

The conditions governing the issue of Pledged Subsidiary Bonds are substantially similar to those respecting the issue of additional First Mortgage Bonds.

PURPOSE OF ISSUE

The entire net proceeds of the sale of the \$62,500,000 principal amount of First Mortgage Bonds 3¾% Series A and Series B due 1969 and of the sale of the 35,000 5½% Cumulative Preferred Shares and of the loans obtained under the Bank Loan Agreement dated April 5, 1939, together with treasury funds will be used by the Company in the redemption on June 1, 1939 in lawful money of Canada or of the United States of America, at the option of the holders, of the \$68,014,500 principal amount of its First Mortgage Gold Bonds 5% Series Due 1956 (being all of such bonds outstanding exclusive of bonds held in the treasury) at 104% of the principal amount thereof. Interest to June 1, 1939 on the bonds being redeemed will be paid out of treasury funds.

FUNDED DEBT AND CAPITAL STOCK (upon completion of present financing)

The capital securities of the Company authorized and outstanding as of December 31, 1938, but adjusted to reflect the issuance and sale of the \$62,500,000 First Mortgage Bonds 3¾% Series A and Series B due 1969 and 35,000 5½% Cumulative Preferred Shares, and the borrowing of \$7,300,000 against the issuance of a like principal amount of its Promissory Notes under the provisions of the Bank Loan Agreement dated April 5, 1939, and the application of the net proceeds as set forth under the caption "Purpose of Issue" herein are tabulated below:

Funded Debt:	Authorized Unlimited (1)	Outstanding on the basis stated above
First Mortgage Bonds.....		
3¾% Series A due 1969.....		\$52,500,000
3¾% Series B due 1969.....		10,000,000
Underlying Obligation (2).....	\$ 249,722	185,278 (3)
Total secured funded debt.....		<u>\$62,685,278 (3)</u>
Serial and Sinking Fund Debentures.....	13,000,000	
3% Series due June 1, 1939.....		(4)
3½% Series due June 1, 1940.....		600,000
4% Series due June 1, 1941.....		600,000
4¼% Series due June 1, 1942.....		600,000
4¾% Series due June 1, 1943.....		600,000
5% Sinking Fund Debentures due 1949.....		9,901,000
Promissory Notes, 3.65% due 1939-1949 (5).....	7,300,000	7,300,000
Total unsecured funded debt.....		<u>\$19,601,000 (4)</u>
Total Funded Debt.....		<u>\$82,286,278</u>
Capital Stock:		
5% Cumulative Preferred Shares (\$100 par value).....	121,960 shs.	\$12,196,000
5½% Cumulative Preferred Shares (\$100 par value).....	50,000 shs.	3,500,000
Common Stock (no par value).....	3,000,000 shs.	25,161,596 (6)
Total Capital Stock.....		<u>\$40,857,596</u>

- (1) First Mortgage Bonds of Series A and B or other series may be issued as provided in the Indenture, limited to the aggregate principal amount of \$250,000,000 unless the authorized amount is increased by supplemental indenture.
- (2) 5% Property Purchase Obligation to Town of St. Jerome payable in equal annual instalments of \$8,055.55, final payment due March 1, 1962.
- (3) Exclusive of instalment of \$8,055.55 paid March 1, 1939 included in current liabilities as of December 31, 1938.
- (4) \$600,000 3% Serial Debentures due June 1, 1939 included in current liabilities as of December 31, 1938.
- (5) Maturing serially in the principal amount of \$400,000 on October 15, 1939 and on each April 15 and October 15 thereafter to and including April 15, 1944 and \$330,000 on October 15, 1944 and on each April 15 and October 15 thereafter to and including April 15, 1949.
- (6) Represented by 1,635,950 shares. The Company gave, as an incident to the issuance of \$10,000,000 principal amount of 5% Sinking Fund Debentures, rights to subscribe between June 27, 1938 and December 31, 1942 for 10 Common Shares (as constituted on June 1, 1938), at \$10 per share, for each \$1,000 principal amount of such Debentures. On December 31, 1938, 86,010 Common Shares were reserved for issuance upon the exercise of such rights.

MATURITIES AND SINKING FUND PAYMENTS

The provisions of the Indentures and the Bank Loan Agreement relating respectively to the First Mortgage Bonds of Series A and Series B, the Serial and Sinking Fund Debentures and the Promissory Notes referred to herein require the Company to redeem through sinking funds and to retire at maturity the following principal amounts of such Funded Debt prior to 1950:

Year	First Mortgage Bonds	Serial and Sinking Fund Debentures	Promissory Notes	Total
1939.....	—	\$ 600,000	\$400,000	\$1,000,000
1940.....	—	600,000	800,000	1,400,000
1941.....	—	600,000	800,000	1,400,000
1942.....	—	600,000	800,000	1,400,000
1943.....	—	600,000	800,000	1,400,000
1944.....	—	600,000	730,000	1,330,000
1945.....	\$315,000	600,000	660,000	1,575,000
1946.....	315,000	600,000	660,000	1,575,000
1947.....	315,000	600,000	660,000	1,575,000
1948.....	315,000	600,000	660,000	1,575,000
1949.....	315,000†	6,901,000*	330,000	7,546,000*

† Thereafter the Indenture provides for the redemption of First Mortgage Bonds through the Sinking Fund, as follows: from 1950 to 1954, both inclusive, \$625,000; from 1955 to 1959, both inclusive, \$850,000; from 1960 to 1964, both inclusive, \$1,250,000; from 1965 to 1968, both inclusive, \$1,500,000; and on January 1, 1969, \$1,500,000. Sinking fund retirements in the years 1945 to 1969 inclusive based on this schedule aggregate \$22,700,000 principal amount.

* Includes the maturity of the balance of \$6,301,000 Sinking Fund Debentures due 1949 not theretofore retired through the operation of the sinking fund or the application of the proceeds, received prior to December 31, 1938, upon the exercise of the rights to subscribe for Common Shares contained in the Stock Subscription Warrants. The Company is obligated to apply the proceeds from the exercise of such rights, received after December 31, 1938, to the redemption of additional Sinking Fund Debentures.

As shown above, Funded Debt (excluding Underlying Obligation) scheduled for retirement prior to January 1, 1945 aggregates \$7,930,000 principal amount. The maximum principal amount of Funded Debt scheduled for retirement in any calendar year prior to 1945 aggregates \$1,400,000 as compared with \$1,575,000 in each of the years 1945 to 1948 inclusive. This \$175,000 increase in scheduled Funded Debt retirement is less than the annual interest requirements of \$302,045 in respect of aggregate Funded Debt scheduled for retirement by 1945.

SUMMARY OF EARNINGS

The following summary of earnings of the Company and its subsidiaries consolidated, for the three calendar years ended December 31, 1938, has been prepared by Messrs. P. S. Ross & Sons, Chartered Accountants, from the financial statements included herein which have been certified by said firm:

	Year Ending December 31,		
	1936	1937	1938
Gross Revenues.....	\$8,115,564	\$8,680,996	\$8,789,523
Operating, general and administrative expenses.....	\$ 841,344	\$ 885,464	\$ 922,795
Maintenance.....	231,768	273,864	218,906
Taxes (other than income taxes).....	294,575	310,467	327,329
Total Expenses.....	<u>\$1,367,687</u>	<u>\$1,469,795</u>	<u>\$1,469,030</u>
Gross Income before provision for depreciation and income taxes.....	\$6,747,877	\$7,211,201	\$7,320,493
Provision for depreciation charged against operations.....	646,825	656,789	664,727
Gross Income available for fixed charges, income taxes and dividends.....	<u>\$6,101,052</u>	<u>\$6,554,412</u>	<u>\$6,655,766</u>

The above summary of earnings is subject to and is to be read in conjunction with the comments which appear in the accountants' certificate on page 8 herein and the notes on and to said financial statements which appear herein on pages 8 to 12.

Upon completion of this financing annual interest requirements on the First Mortgage Bonds 3¾% Series A and B due 1969 (and on the Underlying Obligation) will amount to \$2,353,417 of which \$1,968,750 will be payable in United States Funds.

Annual interest requirements on *total* Funded Debt will amount to \$3,228,917 of which \$2,235,200 will be payable in United States funds.

GENERAL

The statements made herein as to matters of law and legal conclusion under the captions "Property", "Provincial Electricity Board", "Miscellaneous Information", "Security", "Covenant of the Indenture with respect to Certain Contracts", "Substitution and Release" and "Issue of Additional First Mortgage Bonds" are made on the authority of counsel for the Company.

The statements herein under the captions "Security", "Substitution and Release" and "Issue of Additional First Mortgage Bonds" are qualified by reference to the pertinent definitions in the Indenture of the capitalized words and phrases appearing in such statements.

In this letter no distinction is made between Canadian and United States Dollars except where specifically stated otherwise.

To the Board of Directors,
GATINEAU POWER COMPANY,
Montreal, Que.

ACCOUNTANTS' CERTIFICATE

We have made an examination of the consolidated balance sheet of Gatineau Power Company and subsidiary companies as at December 31, 1938, and of the related statements of profit and loss and earned surplus for the three years ended December 31, 1938. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the three years above mentioned, but we did not make a detailed audit of the transactions. We have not examined the companies' titles to the properties, leases and franchises, and in accordance with our practice we, as auditors, disclaim any responsibility therefor.

In our opinion and in accordance with accepted principles of accounting, annual provisions for current depreciation accruing on properties, are properly chargeable to current profit and loss account. In addition to the provisions for depreciation determined by the management and charged to current profit and loss account, further amounts designated as provisions for depreciation have been charged directly to paid-in surplus account as described on the accompanying financial statements. We, as auditors, take no responsibility for the adequacy of either of these provisions for depreciation.

In our opinion, based upon the examination referred to above and subject to the above comments on depreciation, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus and the notes thereto, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the three years under review, the financial position of Gatineau Power Company and its subsidiaries at December 31, 1938 and the results of their operations for the three years ended on that date.

Montreal, Que.
April 10, 1939.

(Signed) P. S. Ross & Sons,
Chartered Accountants

GATINEAU POWER COMPANY AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1938 (See note 1) ASSETS

Capital Assets:

Plants and properties; development costs; water power and storage rights and intangibles (includes \$6,798,801.50 cost and expenses of certain storage works which upon completion became the property of the Province of Quebec.) (See note 2).....			\$132,118,071.88
Investments: (see note 3)			
Securities (at cost) on deposit with Provincial Government.....	\$	19,272.00	
Other security investments at cost, in part from affiliates (includes \$360,000 having a quoted value of \$130,900; as to the balance no quoted values available).....		2,444,335.30	2,463,607.30
Total.....			\$134,581,679.18

The amounts at which plants and properties and investments are stated do not purport to represent realizable values.

Current Assets:

Cash.....		\$1,571,568.60	
Marketable securities at cost (Dominion of Canada bonds, quoted value \$150,000.00).....		149,250.00	
Accounts receivable:			
Customers.....	\$605,292.97		
Less: Reserve for doubtful accounts.....	74,549.64		
	\$530,743.33		
Others.....	\$7,258.37		
Less: Reserve for doubtful accounts.....	500.00	6,758.37	
Due from affiliated companies not consolidated, settled currently....	251,669.94	789,171.64	
Inventories (as determined and certified by the management and valued at cost or less)—Materials and supplies (principally for maintenance and construction), merchandise and appliances.....	\$213,928.54		
Less: Reserve for inventory losses.....	16,028.75	197,899.79	2,707,890.03

Deferred Assets and Expenses:

Cash on deposit with trustee.....	\$	78,900.00	
Accounts receivable not currently due (see note 4).....		69,610.37	
Prepaid insurance and taxes.....		114,661.53	
Deferred assets and charges applicable to future operations.....		123,669.69	
Difference between cost and par value of reacquired bonds held in treasury, plus discount applicable thereto.....		22,226.35	
Organization expenses.....		10,713.57	
Unamortized debt discount and expense (see note 5).....		5,344,103.34	5,763,884.85
			\$143,053,454.06

LIABILITIES

Funded Debt:

Gatineau Power Company (after deducting \$215,500.00 in treasury) (see note 6 and note 9) ..	\$	80,500,777.85
--	----	---------------

Current Liabilities:

Accounts payable.....	\$	93,059.93	
Customers' deposits.....		40,918.61	
Accrued payrolls.....		19,607.21	
Accrued taxes.....		281,876.72	
Accrued interest.....		342,203.48	
Dividend payable January 1, 1939, on preferred shares.....		152,450.00	
Accrued rentals and royalties.....		57,259.77	
Other accrued items.....		30,699.30	
Property purchase obligation due in 1939.....		8,055.55	
3% Serial debentures due in 1939.....		600,000.00	
Due to affiliated companies not consolidated, settled currently.....		47,501.10	1,673,631.67

Reserves:

Depreciation and amortization (see note 10)			
Arising from charges to paid-in surplus.....		\$10,625,500.00	
Arising from charges to profit and loss.....		6,763,625.27	
Total.....		\$17,389,125.27	
Less: Retirements to date.....		13,104.15	
		\$17,376,021.12	
Other.....		9,338.27	17,385,359.39

Capital Stock (See note 7) and Surplus:

	Shares Authorized†	Shares Outstanding	
5% Cumulative Preferred \$100, par.....	121,960	121,960*	\$12,196,000.00
Common, without nominal or par value.....	3,000,000**	1,635,950	25,161,596.96
Surplus:			
Paid-in (see note 16).....			468,724.88†
Earned (see page 9).....			5,667,363.31†
			\$143,053,454.06

*Redeemable at any time on 60 days notice at \$110 per share.

**86,010 shares reserved for issue under stock subscription rights (exercisable any time prior to December 31, 1942) granted as an incident to the issue of 5% Sinking Fund Debentures maturing 1949 (see note 7).

†By Supplementary Letters Patent issued March 8, 1939, the authorized Capital Stock was increased by the creation of 50,000 5½% Cumulative Preferred Shares, none of which are yet outstanding.

‡During the years 1933 through 1938 (see note 10) amounts aggregating \$10,625,500 have been charged to paid-in surplus as additional provisions for depreciation. If this amount had been charged to profit and loss account instead of paid-in surplus, the balance of earned surplus at December 31, 1938, would have been a deficit of \$4,958,136.69 and the balance of paid-in surplus would have been \$11,094,224.88.

See explanatory notes on pages 10 to 12 which are an integral part of the above statement.

GATINEAU POWER COMPANY
AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS
FOR THREE YEARS ENDED DECEMBER 31, 1938

	Year ended December 31,		
	1936	1937	1938
Operating Revenue and Other Income:			
Operating revenue—			
Power sales			
Sales to The Hydro-Electric Power Commission of Ontario (see note 12)...	\$3,055,132.65	\$3,095,265.72	\$3,438,439.59
Sales to other electric systems.....	483,684.44	523,736.99	580,944.30
Sales to affiliated companies (including rental of plant).....	3,153,403.38	3,406,255.26	3,096,559.26
Other power sales.....	681,646.20	782,621.52	735,159.28
Domestic and commercial sales.....	635,466.97	675,644.45	723,087.10
Municipal lighting sales.....	51,541.26	52,036.40	52,918.36
Transportation revenue.....	—	19,366.77(1)	56,609.88
Total operating revenue.....	\$8,060,874.90	\$8,554,927.11	\$8,683,717.77
Other income—net—			
Interest income.....	\$ 9,475.69	\$ 10,047.20	\$ 13,845.87
Dividend income.....	—	49,475.00	49,483.25
Other security investments.....	23,507.42	34,316.11	35,806.27
Profit on merchandise sales and jobbing.....	7,774.76	11,495.68	14,060.83
Rental of miscellaneous properties.....	20,597.54	20,895.78	29,752.44
Miscellaneous.....	61,355.41	126,229.77	142,948.66
Less: Loss on exchange.....	6,666.08	161.08	37,142.51
Total other income—net.....	\$ 54,689.33	\$ 126,068.69	\$ 105,806.15
	\$ 8,115,564.23	\$ 8,680,995.80	\$ 8,789,523.92
Expenses:			
Operating expenses.....	\$ 516,044.91	\$ 559,701.60	\$ 587,111.97
Maintenance (see note 10).....	231,767.79	273,864.33	218,906.41
Taxes (other than income taxes).....	294,575.32	310,467.50	327,329.18
General and administrative expenses.....	318,829.41	323,137.89	330,953.50
Provision for doubtful accounts.....	6,469.84	2,623.70	4,729.18
	\$ 1,367,687.27	\$ 1,469,795.02	\$ 1,469,030.24
	\$ 6,747,876.96	\$ 7,211,200.78	\$ 7,320,493.68
Deduct:			
Interest—			
Funded debt (see note 14).....	\$ 4,466,068.81	\$ 4,323,435.94	\$ 4,188,507.21
Affiliated company—Canadian Hydro-Electric Corporation, Limited.....	278,589.23	211,878.93	—
Other.....	9,928.25	3,749.09	2,173.98
Provision for depreciation charged against operations (see note 10).....	646,825.22(2)	656,789.45(2)	664,727.48(2)
Provision for income taxes.....	6,258.82	34,898.19	133,236.43
Amortization of discount and expense (see note 5).....	338,410.44	336,282.16	379,846.67
Amortization of organization expense.....	2,400.00	2,400.00	2,400.00
	\$ 5,748,480.77	\$ 5,569,433.76	\$ 5,370,891.77
Net Income added to Earned Surplus (see note 13).....	\$ 999,396.19(2)	\$ 1,641,767.02(2)	\$ 1,949,601.91(2)
Balance at beginning of period.....	2,362,717.96	3,437,759.58	5,086,741.12
Profit on bonds and debentures reacquired and redeemed.....	75,645.43	7,214.52	22,319.46
Totals.....	\$ 3,437,759.58	\$ 5,086,741.12	\$ 7,058,662.49
Deductions:			
Charges against Surplus (see note 15).....	—	—	129,475.18
Dividends—on preferred shares.....	—	—	609,800.00
on common shares.....	—	—	652,024.00
Totals.....	—	—	\$ 1,391,299.18
Balance of Earned Surplus at close of period.....	\$ 3,437,759.58(2)	\$ 5,086,741.12(2)	\$ 5,667,363.31(2)

(1) For the period from date of acquisition of capital stock of subsidiary motor transportation company by the Company September 1, 1937.

(2) In each of the above years, additional provisions for depreciation in the amount of \$1,750,000 were charged directly to paid-in surplus (see note 10). If these additional charges had been made against profit and loss instead of paid-in surplus, there would have been a deficit of \$750,603.81 and \$108,232.98 to surplus in the years 1936 and 1937, respectively, and in the year 1938 net income added to surplus would have been \$199,601.91, and the balance in earned surplus at the close of the years 1936, 1937 and 1938 would have been a deficit of \$3,687,740.42, \$3,778,758.88 and \$4,958,136.69, respectively, and the balance in paid-in surplus would have been \$13,094,224.88, \$11,094,224.88, and \$11,094,224.88 respectively.

See explanatory notes on pages 10 to 12 which are an integral part of the above statement.

GATINEAU POWER COMPANY

AND SUBSIDIARY COMPANIES

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Consolidation:

The accounts for the year ended December 31, 1938 of all subsidiary companies of the Company are included in the accompanying consolidated financial statements. All subsidiaries of the Company are wholly owned.

All inter-company accounts between subsidiary companies and the Company have been eliminated in the accompanying consolidated balance sheet. In consolidating the income accounts of subsidiary companies with that of the Company all inter-company sales and profits have been eliminated.

The Company does not follow the practice of recording in its investment and surplus accounts the undistributed earned surpluses (less deficits) of subsidiaries arising since dates of acquisition. On December 31, 1938, the accumulated operating deficits of subsidiaries amounted to \$50,545.82 and accumulated earned surpluses amounted to \$40,370.25 or a net deficit of \$10,175.57.

On December 31, 1938 the Company's equity in the net assets of its subsidiaries consolidated, as shown by the books of the latter, was \$60,336.56 less than investments in subsidiaries consolidated as shown by the books of the Company. Of this amount \$10,175.57 represents accumulated net deficits of subsidiaries consolidated and \$50,160.99 represents excess paid for the capital stock of a subsidiary company over the stated value thereof on the books of the subsidiary at the date of acquisition; the capital stock of this subsidiary was acquired by the Company under the plan of amalgamation of Canadian Hydro-Electric Corporation, Limited with the Company and the purchase price was identical with the cost to Canadian Hydro-Electric Corporation, Limited. In consolidation of the accounts at December 31, 1938 the amount of \$50,160.99 was added to plants and properties and the \$10,175.57 was applied against earned surplus.

(2) Plants and Properties; Development Costs; Water Power and Storage Rights and Intangibles:

Plants and properties; development costs; water power and storage rights and intangibles are stated at cost of construction or acquisition, in part from affiliates, to the Company and its subsidiaries on the basis of cash paid or par or stated value of capital stocks issued therefor, including \$50,160.99 representing excess paid for the capital stock of a subsidiary company over the stated value thereof on the books of the subsidiary at the date of acquisition. The Company advises that for acquisitions of power properties, rights and intangibles acquired from affiliates for which shares of capital stock were issued, a report as to valuations was obtained from a firm of independent engineers which report, together with resolution of the Board of Directors, formed the basis of determination of acquisition values.

The Company was organized in 1926 and at that time acquired power properties, rights and intangibles from affiliates aggregating \$37,350,000. Subsequently other acquisitions of power properties, rights and intangibles amounting to \$11,170,000 were made from the affiliates. As part consideration for these acquisitions there was issued to the affiliates \$32,000,000 par or stated value of preferred and common stocks of the Company and of an affiliate substantially all of whose assets have since been acquired by the Company, and the balance was paid in cash.

The Company advises that among the properties and rights included in these transactions were (1) four undeveloped water power sites (Paugan, Chelsea and Farmers on the Gatineau River and Grand Falls on the Saint John River) at which sites power plants have since been constructed with an aggregate installed water wheel capacity of 584,000 horsepower, (2) a developed power plant (Kipawa) having an installed water wheel capacity of 27,550 horsepower, and (3) a steam electric plant (Dalhousie) having an installed turbine capacity of 9,000 horsepower.

In connection with these transactions and the acquisition of certain investments as referred to in note 3, the affiliates have informed the Company that the more important physical properties involved were portions of much larger acquisitions made by them on various occasions prior to 1926 for lump sums, and that the separate cost of such properties cannot be determined. At about the same time as some of the above acquisitions from affiliates, certain of the affiliates executed contracts with the Company, and with another affiliate (which subsequently became a subsidiary of the Company) for electricity to be furnished to several mills of the affiliates and for steam and the use of transmission and transformer facilities at one such mill; these contracts involve substantial periodic payments over long terms. The affiliates have also informed the Company that the extent, if any, to which a part of the substantial periodic payments under these long term contracts should be considered as an element in computing the amounts received by the affiliates for the assets transferred, is not susceptible of definite determination, and that therefore, it is not possible to estimate on any reliable basis whether the total amount at which such assets are carried in the Company's corporate and consolidated statements includes a profit or a loss to the affiliates as a result of the foregoing transactions.

In addition to the above acquisitions from affiliates certain properties were acquired in 1927 by the Company and a company which is now a subsidiary, from Canadian Hydro-Electric Corporation, Limited (which acquired control of the Company in 1927 and which was amalgamated with the Company in 1937—see note 7). The purchase price was \$5,190,357.83 in excess of the cost of such properties to the Canadian Hydro-Electric Corporation, Limited.

Includes an amount of \$6,798,801.50 representing the cost and expenses to the Company of storage reservoirs and accompanying works, exclusive of certain unsegregated items, which upon completion became the property of the Province of Quebec, but which are operated by the Government, through the Quebec Streams Commission, under long term contracts with the Company for regulation of the flow of the Gatineau River at Chelsea for the benefit of the Company and any other power owners on said river. The cost of these storage works is being amortized on an annuity basis over periods of 40 years from the dates (1927 and 1929) of completion of the respective reservoirs.

The Company advises that no segregation of intangible and tangible values of fixed assets has been made pursuant to any order by any regulatory body or otherwise, and states that to obtain such a segregation is not feasible because of the unreasonable effort and expense that would be involved.

(3) Investments:

At December 31, 1938, \$19,600 principal amount of Dominion of Canada Bonds owned by the Company and shown on the balance sheet at a cost of \$19,272 was on deposit with the Provincial Government of Quebec as guarantee under leases.

In September 1937 the Company acquired under the plan of amalgamation of Canadian Hydro-Electric Corporation, Limited with the Company (see note 7) 49+ $\frac{1}{2}$ % of the voting stock of The E. B. Eddy Company, Limited, and 4,700 common shares of Eddy Match Company, Limited and 6,545 shares of Shawinigan Water & Power Company. The Company's investment in these companies is carried on its books at \$2,444,329.30 which is the identical value at which such investments were carried by Canadian Hydro-Electric Corporation, Limited. The aforementioned securities were acquired by Canadian Hydro-Electric Corporation, Limited from affiliated companies (see note 2). Other security investments owned by the companies are carried on the books at a nominal value of \$6.00.

(4) Accounts Receivable not Currently Due:

Accounts receivable not currently due includes \$63,931.56 due under instalment sales contracts.

(5) Unamortized Debt Discount and Expense:

This amount represents the unamortized balance of debt discount and expense and includes \$329,924.68 of unamortized debt discount and expense and cost of retirement, including exchange premium paid upon redemption, of refunded obligations which, pending instructions from the Provincial Electricity Board, is being amortized ratably over the periods to stated dates of maturity of the refunding issues. All other debt discount and expense is being amortized ratably by charges to profit and loss over the respective periods to maturity with appropriate adjustments of discount for bonds and debentures reacquired and retired.

Unamortized debt discount applicable to bonds reacquired but not retired at December 31, 1938, has been included on the balance sheet in the item "difference between cost and par value of reacquired bonds held in treasury".

The amount of unamortized debt discount and expense on the First Mortgage Gold Bonds due 1956 amounts to \$4,359,178.36. The Company intends to call these bonds for redemption on June 1, 1939 at par plus a premium of 4%. Based on the amount of bonds outstanding at December 31, 1938 the total call premium will amount to \$2,720,580. The jurisdiction of the Provincial Electricity Board extends to the manner in which the unamortized debt discount and expense on and cost of retirement of refunded obligations shall be dealt with and it is expected that an Order of the Board will be issued in due course in this connection.

(6) Funded Debt:

In June 1938 the Company made the following issue of debentures:

5% Sinking Fund Debentures dated June 1, 1938, and maturing June 1, 1949.....	\$10,000,000.00
Serial Debentures dated June 1, 1938, bearing interest at rates varying from 3% to 4 $\frac{1}{4}$ % and maturing \$600,000.00 per annum 1939 to 1943	3,000,000.00

As an incident to the sale of the above mentioned \$10,000,000.00 5% Sinking Fund Debentures the Company issued stock subscription warrants entitling the holder to subscribe at any time prior to December 31, 1942, for Common Shares (as constituted on June 1, 1938) of the Company at \$10.00 per share on the basis of 10 shares in respect of each \$1,000.00 principal amount of Debentures.

GATINEAU POWER COMPANY

AND SUBSIDIARY COMPANIES

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Trust Indenture in respect of the Serial and Sinking Fund Debentures provides that any moneys received from the exercise of these rights must be deposited with the Trustee to be applied to the purchase or retirement of 5% Sinking Fund Debentures. To December 31, 1938, there was received by the Trustee from the exercise of these rights \$139,900.00 of which \$99,000.00 was applied to the purchase of a like principal amount of 5% Sinking Fund Debentures and the balance of \$40,900.00 remained on deposit with the Trustee.

Simultaneously with the sale of the foregoing Debentures, the Company delivered to the trustee for cancellation \$3,129,000.00 principal amount of 6% Debentures due 1941, which it had reacquired and held in its treasury, and called for redemption on July 29, 1938, its outstanding 6% Debentures due 1941 held by the public in the amount of \$13,011,500.00.

(7) Changes in Capitalization:

Supplementary Letters Patent were issued under the Quebec Companies Act under date of August 13, 1937, confirming a Special By-law enacted by the board of directors and sanctioned by the shareholders under date of August 11, 1937, converting and changing the authorized and outstanding capital stock, consisting of 250,000 6% Cumulative Preferred Shares of a par value of \$100.00 each and 500,000 Common Shares of a par value of \$5.00 each, into 121,960 5% Cumulative Preferred Shares of a par value of \$100.00 each and 998,304 Common Shares without nominal or par value, and concurrently increasing the authorized capital stock by the creation of 2,001,696 additional Common Shares without nominal or par value, so that thereafter the authorized capital stock of the Company consisted of 121,960 5% Cumulative Preferred Shares of a par value of \$100.00 each and 3,000,000 Common Shares without nominal or par value.

Pursuant to a contract dated June 3, 1937, as amended July 13, 1937 and effective as of September 1, 1937, between Canadian Hydro-Electric Corporation, Limited and the Company 623,656 of the additional Common Shares without nominal or par value so created were allotted and issued by the Company as part consideration for the sale and transfer by Canadian Hydro-Electric Corporation, Limited to the Company of all of its undertaking and assets except shares of the Company.

The foregoing resulted in an increase in the capital stock account of \$9,717,696.96 representing value placed on 623,656 Common Shares without nominal or par value allotted and issued as referred to hereinbefore. This amount is made up of:

Net book value of assets of Canadian Hydro-Electric Corporation, Limited, sold and transferred to the Company..	\$4,676,362.06
Release and discharge by Canadian Hydro-Electric Corporation, Limited of the Company from open account indebtedness	5,309,366.92
	\$9,985,728.98
Less: Surrender for cancellation by the Company of 3,040 cumulative 6% first preferred shares of Canadian Hydro-Electric Corporation, Limited	268,032.02
	<u>\$9,717,696.96</u>

As a result, the capital stock account of the Company as of September 1, 1937, was as follows:

5% cumulative preferred stock par value \$100.00 per share (authorized 121,960 shares; outstanding 121,960 shares)	\$12,196,000.00
Common stock without nominal or par value (authorized 3,000,000 shares; outstanding 1,621,960 shares)	25,021,696.96
	<u>\$37,217,696.96</u>

As an incident to the above mentioned changes in capitalization, all undeclared and unpaid cumulative dividends on the 250,000 shares of 6% Cumulative Preferred Stock of the Company were cancelled.

In June 1938, as an incident to the sale of \$10,000,000.00 5% Sinking Fund Debentures due 1949, the Company issued stock subscription warrants entitling the holder to subscribe at any time prior to December 31, 1942 for Common Shares (as constituted on June 1, 1938) of the Company at \$10.00 per share, on the basis of 10 shares in respect of each \$1,000.00 principal amount of Debentures.

To December 31, 1938, there was received, from the exercise of these rights, \$139,900.00 for which 13,990 shares were issued.

Supplementary Letters Patent were also issued under the Quebec Companies Act under date of March 8, 1939, increasing the authorized capital stock of the Company by the creation of 50,000 5½% Cumulative Preferred Shares of the par value of \$100.00 each so that thereafter the authorized capital stock of the Company consisted of:

121,960 5% Cumulative Preferred Shares of the par value of \$100.00 each
50,000 5½% Cumulative Preferred Shares of the par value of \$100.00 each
3,000,000 Common Shares without nominal or par value.

(8) Contingent Liabilities:

No provision has been made in the accompanying financial statements for possible liability under pending law suits, claims for damages, etc. The management of the Company report such claims as aggregating approximately \$310,000.00, exclusive of two claims for flooding damages, the amounts of which are indefinite but are not believed to be of major importance.

(9) Gold Obligations:

The obligation expressed in bonds to make payment in Canadian or United States gold coin is shown at face amount.

(10) Maintenance and Depreciation Policy:

The companies have followed the policy of charging to maintenance expense accounts, as incurred, the cost of current repairs and minor replacements of plants and properties, and in addition the cost of replacements, which, in the opinion of the management, do not represent an increase or improvement in plant capacity or serviceability.

The Company was instructed by the Provincial Electricity Board of the Province of Quebec under date of January 15, 1938, to retire from capital the original cost (estimated cost if actual cost not available) of plant displaced and to charge capital with the cost of the replacement. Since the issue of these instructions no major jobs of this nature were completed to December 31, 1938.

The provisions for depreciation as charged against operations have been determined by the management on the basis of percentage of gross operating revenue less rental of a steamplant and substation. Owing to reduced operating revenue the provisions calculated on this basis by Gatineau Power Company for the years 1936, 1937 and 1938 were increased so that the total provision for depreciation and amortization in each of these years would not be less than that provided in the year 1935.

Included in the provisions for depreciation charged against operations are the following amounts: 1938 \$124,662.08, 1937 \$116,845.35 and 1936 \$111,431.68, representing amortization of storage works and certain rented property. The provision being made for the amortization of the cost of these works and plants is on an annuity basis.

Additional provisions for depreciation (\$1,750,000.00 for each of the years 1938, 1937, 1936 and 1935, and \$1,812,750.00 for each of the years 1934 and 1933) in excess of the amounts charged against operations in accordance with the depreciation policy expressed above, have been charged directly to paid-in surplus account of the Company. These additional provisions for depreciation were recorded on the books of the Company so as to comply with a ruling, issued in 1933 under the Income War Tax Act of Canada, which requires the depreciation claimed on tax returns to be incorporated in the "profit and loss, surplus or similar account" in the books of the taxpayer. The balance remaining in the paid-in surplus account at December 31, 1938 was \$468,724.88.

The Company does not contemplate that the portion of the depreciation reserve arising from charges to paid-in surplus will be used in the future to relieve profit and loss or earned surplus of depreciation charges applicable thereto.

Depreciation deductions claimed in income tax returns for years prior to 1933 were substantially in excess of the annual provisions recorded as charges against operations.

(11) Foreign Exchange:

In the accompanying statements all figures have been stated at parity of exchange without adjustment of differences between Canadian and United States funds. It is the practice of the companies to reflect in current operations any difference between this rate and current quotations at the time funds are actually purchased or transferred.

(12) Contracts with The Hydro-Electric Power Commission of Ontario:

By action of the Legislature of the Province of Ontario effective December 6, 1935, contracts between the Company and The Hydro-Electric Power Commission of Ontario for sale by the Company and purchase by the Commission of electrical power, made in 1926 and 1927, respectively, were "declared to be and always to have been illegal, void and unenforceable as against" the Commission.

GATINEAU POWER COMPANY

AND SUBSIDIARY COMPANIES

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Effective November 1, 1935 the Company made new agreements with the Commission expiring not earlier than September 30, 1945. Under the new agreements, the Commission purchased during the period from November 1, 1935 to December 1, 1937, substantially smaller quantities of electricity than those called for by the 1926 and 1927 contracts. The prices under the agreements effective November 1, 1935 were fixed at \$12.50 a horsepower year for Contract Demand, \$10.00 a horsepower year for Immediate Standby and \$1.75 a horsepower year for General Reserve, which resulted in lower prices than under the 1926 and 1927 contracts.

Agreements were made with the Commission in December, 1937, revising and amending the 1926 and 1927 contracts extending their respective terms to 1970 and supplanting those which became effective November 1, 1935 but continuing the lower price. These amending agreements became effective December 1, 1937 and were ratified by the Legislature of Ontario in April, 1938. The amount of Contract Demand was increased annually, until by November 1, 1939 the Commission is required to pay for the full 320,000 h.p. covered by the 1926 and 1927 contracts at \$12.50 per horsepower year.

(13) Amalgamation of Canadian Hydro-Electric Corporation, Limited with Gatineau Power Company:

The amalgamation of Canadian Hydro-Electric Corporation, Limited with the Company became effective as at September 1, 1937; if it had been in effect for the entire year 1937 and the year 1936, the consolidated net income added to surplus would have been \$1,873,452.07 for the year 1937 and \$1,342,832.09 for the year 1936, instead of \$1,641,767.02 and \$999,396.19, respectively, as shown on the Statements of Consolidated Profit and Loss page 9.

(14) Interest on Funded Debt:

This item for the year 1938 includes \$68,444.05 interest on debentures redeemed or called for redemption applicable to periods during which interest expense was also incurred on refunding issues.

(15) Deductions from Earned Surplus:

Charges against earned surplus consist of (1) \$85,000.00 of rentals and survey expenses (capitalized prior to 1932), and \$25,000.00 guarantee deposit on undeveloped leased water power site, the lease for which was cancelled in 1938, (2) \$4,500.00 rentals of other undeveloped leased water power sites (capitalized prior to 1932) and (3) \$14,975.18 miscellaneous survey expenses on abandoned projects.

(16) Paid-in Surplus:

The balance remaining in the paid-in surplus account at December 31, 1938 amounting to \$468,724.88 represents the balance of \$13,094,224.88 arising in 1931 from cancellation of indebtedness to Canadian Hydro-Electric Corporation, Limited (which company controlled the Gatineau Power Company at that time), after deducting therefrom additional depreciation in the years 1933 to 1938 as described in note 10 amounting to \$10,625,500.00 and after a charge in 1937 of \$2,000,000.00 being the write-down of investment in capital stock of a subsidiary company, representing excess paid in 1929 for the common stock of the subsidiary over the value thereof on the books of the subsidiary at date of acquisition.

The above notes are an integral part of the accompanying financial statements.